S
353
L73bass
1987
Montana. Legislature. Office of the Legislative Fiscal Analyst
Budget analysis, special session

BUDGET ANALYSIS SPECIAL SESSION - 3

STATE DOCUMENTS COLLECTION

SEP 25 1995

MONTANA STATE LIBRARY
1515 E. 6th AVE.
HELENA, MONTANA 59620

OFFICE OF THE LEGISLATIVE FISCAL ANALYST

HELENA, MONTANA • JUNE 1986

PLEASE RETURN

Montana State Library
3 0864 1005 9049 9

BUDGET ANALYSIS

1987 BIENNIUM - SPECIAL SESSION III

Presented to the Forty-Ninth Legislature

Submitted by

The Office of the Legislative Fiscal Analyst

Helena, Montana

June 1986

LEGISLATIVE FINANCE COMMITTEE

Senator Jack Haffey Vice Chairman	Representative Calvin Winslow Chairman
Senator Delwyn Gage	Representative Francis Bardanouve
Senator Matt Himsl	Representative Gene Donaldson
Senator George McCallum	Representative Ron Miller
Senator Pat Regan	Representative Ray Peck
Senator Fred Van Valkenburg	Representative Ted Schye

OFFICE OF THE LEGISLATIVE FISCAL ANALYST STAFF

Judy Rippingale, Legislative Fiscal Analyst
Curtis M. Nichols, Senior Fiscal Analyst
James L. Haubein, Principal Fiscal Analyst
Dr. Peter Blouke, Senior Fiscal Analyst
Judith M. Curtis Waldron, Senior Fiscal Analyst
Clifford D. Roessner, Senior Fiscal Analyst
Keith Wolcott, Senior Fiscal Analyst
Pamela D. Joehler, Senior Fiscal Analyst
Clayton L. Schenck, Senior Fiscal Analyst
Carl Schweitzer, Senior Fiscal Analyst
Madalyn Quinlan, Associate Fiscal Analyst
Taryn Purdy, Assistant Fiscal Analyst
Jane Lee Hamman, Assistant Fiscal Analyst
Betty Norris, Administrative Secretary
Kathy Jury, Secretary
Jane Thorsen, Secretary

Digitized by the Internet Archive
in 2010 with funding from
Montana State Library

http://www.archive.org/details/budgetanalysissp1987mont

STATE OF MONTANA

Office of the Legislative Fiscal Analyst

STATE CAPITOL
HELENA, MONTANA 59620
406/444-2986

JUDY RIPPINGALE
LEGISLATIVE FISCAL ANALYST

June 9, 1986

Members of the Forty-Ninth Legislative
Members of the Legislative Finance Committee

In accordance with the provisions of 5-12-302, MCA, I submit for your consideration a fiscal analysis of state revenue and expenditures for the 1987 beinnium. The purpose of this analysis is to assist the legislature in performing its duty which is set forth in Article VIII of the Montana constitution as follows:

> Article VIII, Section 9 - Balanced Budget. Appropriations by the legislature shall not exceed anticipated revenue.

The Budget Analysis is designed to be a working document containing fiscal information relevant to appropriation decisions. We are available to assist all legislators in obtaining information related to fiscal issues and analyzing any executive proposals presented.

Respectfully submitted,

Judy Rippingale

Judy Rippingale
Legislative Fiscal Analyst

BUDGET ANALYSIS

TABLE OF CONTENTS

	PAGE
PERSPECTIVE ON THE FISCAL 1987 BUDGET	1
GENERAL FUND SUMMARY	6
COMPARISON OF LFA AND GOVERNOR REVENUE ESTIMATES	8
GENERAL FUND REVENUE PROJECTION	12
SUPPLEMENTALS	46
INLFATION FACTORS	49
FTE COMPARISON	51
PAY PLAN	52
SCHOOL FOUNDATION	54
BUDGET ANALYSIS	
GENERAL GOVERNMENT AND HIGHWAYS	A-1
HUMAN SERVICES	B-1
NATURAL RESOURCES AND COMMERCE	C-1
INSTITUTIONS	D-1
OTHER EDUCATION	E-1
HIGHER EDUCATION	F-1
LONG-RANGE PLANNING	G-1
INDEX	i

1987 BIENNIUM DEFICIT OVERVIEW

The executive budget foresees a deficit of $87.8 million at the end of the 1987 biennium, or $19.7 million less than our forecast of $107.5 million. The difference is primarily due to our projections of an $18.4 million higher level of supplementals. Table 1 lists the major causes of the difference in deficit projections.

Table 1
A Comparison of LFA and Executive Deficit Forecasts
1987 Biennium
(Millions)

LFA Projected Deficit	$107.5
Lower LFA Revenue	(1.5)
Higher LFA Prior Year Revenue	2.2
Higher LFA Fiscal 1987 Supplementals	
--Public Schools	(5.0)
--Other	(13.4)
Lower LFA Fiscal 1986 Reversions	(1.5)
Other Differences	(0.5)
Executive Projected Deficit	$ 87.8

The $1.5 million difference in revenue is equal to 0.2 percent of total revenue for the biennium; reasons for this small difference are discussed in the Comparison of General Fund Revenue Projections section of this analysis. The LFA figure for prior year revenue adjustments includes $2.0 million of accrued interest earnings added to prior year revenue in May. Compared with the $6.5 million fiscal 1986 reversion forecast by the executive, the LFA anticipates reversions of $5.0 million as agencies spend from budgets tightened by 2 percent cuts in January 1986. Rather than the $25 million public schools supplemental foreseen by the executive, the LFA anticipates a supplemental of $30 million due to our lower forecast of revenue to the school equalization aid account. Lastly, the LFA estimate for other supplementals includes $3.6 million for medicaid and $9.8 million for the local government block grant program not in the executive total.

The Governor's budget presents a plan to balance the budget based on his estimate of the deficit. The LFA has examined the Governor's proposals and finds no material technical problems, other than his not acknowledging all supplemental funding requests which will face the legislature. Besides reviewing the executive proposal, the LFA has also presented additional alternatives.

The options available to the legislature are presented in two tables: 1) revenue shifts to the general fund, and 2) general fund expenditure reductions. There are $71 million of potential revenue shifts to the general fund and $84 million of potential general fund expenditure cuts. Of this $155 million in revenue shifts and expenditure reductions, $34 million of the shifts are possible due to tax increases, fee increases, or shifting costs to the counties. Table 2 shows the amount of each cost increase by payer or revenue source.

Table 2
General Fund Revenue Increases and Reductions Available due to Cost Shifts
(Millions)

Revenue or Reduction Options	$155
Less: (1) Gas Tax	(10)
(2) Utility Tax	(2)
(3) Fee Increases	(20)
(4) County Costs	(2)
Options Without Cost Shifts	$121

Note: Does not include the school foundation schedule change as a cost shift.

To take all options presented for expenditure cuts and revenue shifting in the Department of Highways, a $10 million gas tax increase is required to maintain the $10 million fund balance referenced in House Bill 500 as shown on page A-126 of this analysis. Of the fee increases, $18 million is due to increasing vehicle fees to fund the local government block grant supplemental and to replace the $1.5 million general fund and $7.0 million of oil severance tax appropriated for the local government block

grant in fiscal 1987. The county cost increases result from returning the responsibility for county assessors and appraisers salaries to the counties.

If none of the cost shifts presented by either the Governor or the LFA is acceptable, $121 million of options remain available for eliminating the deficit. Some options are one-time or temporary solutions. Effort needs to be made to identify the short- and long-term impacts of legislative decisions on revenue and expenditure trends. Ultimately, there must be a long-term solution to balance on-going revenues and expenditures. Sound fiscal policy requires equating on-going expenditures with a permanent revenue structure. To do otherwise will lead to erratic changes in tax and spending policies.

Revenue Shifts

Table 3 shows the revenue shifts to the general fund. The top of the table lists the Governor's proposals. The agency, program, or policy choice is named; the fund source is identified; and the amount of revenue shift proposed in the executive budget is shown. In addition, the maximum amount which the LFA has presented as an issue for the same agency in this budget analysis is listed. The "unduplicated" column takes the maximum dollar amount presented either in the Governor's budget or the LFA Budget Analysis. The lower part of the table lists LFA issues and identifies revenue shifts presented in the budget analysis which are not part of the Governor's budget. The bottom line shows that the maximum amount of unduplicated revenue shifts is $70.7 million.

Table 3
Unduplicated Revenue Shifts to the General Fund

Governor	Fund Source	Exec. Amount	LFA Amount	Unduplicated
Legislative Council	Montana Code Annotated Acct.	$ 500,000	$ 500,000	$ 500,000
Public Employee Retirement	Social Security Cont. Acct.	2,000,000	2,000,000	2,000,000
Department of Highways	Federal Mineral Royalties	6,705,000	15,544,334	15,544,334
	Coal Tax	6,211,000	8,148,318	8,148,318
	Interest Earnings	6,764,000	-0-	6,764,000
Department of Commerce	Coal Board	1,650,000	2,199,275	2,199,275
Long-range Building Program	Capitol Renovation Bond Proceeds	5,100,000	5,100,000	5,100,000
Department of Revenue	Retail Liquor Adjustments	1,085,000	-0-	1,085,000
Department of Admin.	TRANS Cap. Removal	1,283,000	1,363,000	1,363,000
Fish, Wildlife, & Parks	Trust Fund Cap	1,761,000	-0-	1,761,000
Dept. of Natural Resources	Alternative Energy Grants	1,143,000	-0-	1,143,000
Balanced Budget	Increased Interest	4,655,000	-0-	4,655,000
Foundation Program	Education Trust Coal Tax	7,043,000	8,094,986	8,094,986
GOVERNOR'S PROPOSALS		$45,900,000	$42,949,913	$58,357,913
LFA Issues				
Worker's Compensation	Crime Victims Fund			$ 250,000
Health & Environ. Sciences	Inspection Fees			247,600
Department of Agriculture	Plant Industry Fees			229,972
	Pesticide Fees			326,268
Department of Commerce	Weights and Measures			260,791
	Local Government Block Grant			6,977,144
	Science and Technology			800,000
Department of State Lands	State Lands Aircraft			171,968
Long Range Building Program	Cash Program			3,102,537
LFA ISSUES				$12,366,280
TOTAL UNDUPLICATED GOVERNOR AND LFA REVENUE SHIFT OPTIONS				$70,724,193

Expenditure Reductions

Table 4 summarizes the Governor's proposals and the LFA options for general fund expenditure reductions. There is a table at the beginning each subcommittee section in the budget analysis which details the Governor's across-the-board and policy cuts and presents the LFA issues. These tables also compare the Governor's and the LFA issues for duplication so that the maximum amount of "unduplicated" general fund expenditure reductions are known. Table 4 summarizes the bottom line of the

subcommittee tables and adds the foundation program and the pay plan, which are not in the subcommittees. The local block grant supplemental is also presented as it is included in the $107.5 million LFA deficit projection. Should this supplemental not be funded, the deficit projection would be reduced.

Table 4
Unduplicated General Fund Governor's Cuts and LFA Issues

Subcommittee	Unduplicated Cuts	Governor's Cuts	Additional LFA Issues
A. General Government	$ 9,846,675	$ 6,093,103	$ 3,753,572
B. Human Services	14,337,456	10,900,014	3,437,442
C. Natural Resources and Commerce	8,235,605	4,021,815	4,213,790
D. Institutions	3,301,930	1,532,405	1,769,525
E. Other Education	3,644,902	2,462,135	1,182,767
F. Higher Education	15,773,757	4,687,232	11,086,525
G. Long Range Planning	-0-	-0-	-0-
Total Subcommittees	$55,140,325	$29,696,704	$25,443,621
Foundation Program	$11,229,000	$11,229,000	$ -0-
Pay Plan	8,128,000	8,128,000	-0-
Block Grant Supplemental	9,751,272	-0-	9,751,272
Total Cut Options	$84,248,597	$49,053,704	$35,194,893

GENERAL FUND SUMMARY

Coupling the current revenue projection with appropriations now on the books, the Office of the Legislative Fiscal Analyst forecasts the general fund would end the 1987 biennium with a deficit of $107.5 million. Table 1 shows calculation of the projected deficit.

Table 1
Projected General Fund Balance
Fiscal Years 1986 and 1987
(Thousands)

	Fiscal 1986	Fiscal 1987
Beginning Fund Balance, July 1	$ 27,545	$ (5,251)
Projected Revenue	346,921	340,899
Net Prior Year Revenue/Exp. Adjustments	2,993	-0-
Total Funds Available	$377,459	$ 335,648
Appropriations:		
HB 375 Pay Plan	$ 4,186	$ 12,314
HB 212 Public School Support	16,234	16,326
Other Appropriation Bills	356,220	348,674
Emergency & Disaster	204	151
Continuing Appropriations	1,065	-0-
Long-term Debt Service	12,446	12,405
TRANS Interest & Issue Costs	2,137	2,000
Feed Bills	895	4,481
Supplementals:		
March 1986 Special Session	3,284	4,285
1987 Session - Public Schools	-0-	30,067
- Other	-0-	20,843
2 Percent Executive Order Cuts	(6,951)	-0-
Reversions:		
Debt Service	(1,932)	(1,940)
Continuing Appropriations	(78)	-0-
Other	(5,000)	(6,500)
Total Expenditures	$382,710	$ 443,106
Ending Fund Balance, June 30	$ (5,251)	$(107,458)

Appropriations include $597,000 under feed bills for the June 1986 special session, a $30 million supplemental for the school foundation program, and other supplementals totaling $20.8 million which include $7.6 million for the Department of Social and Rehabilitation Services and $9.8 million for the Department of Commerce. Later sections of this report contain details on our revenue forecast and supplemental appropriations.

The fiscal 1986 entry for other appropriation bills reflects all general fund spending authority on the books this year. Since that authority includes some biennial appropriations which may not be spent until next year, our forecast of fiscal 1986 spending may be too high and, consequently, our projected ending balance for this year too low. When the biennial appropriations are spent does not, however, affect the size of the fiscal 1987 ending fund balance.

The Constitution's requirement that appropriations not exceed anticipated revenue implies the need for action to eliminate the projected deficit. Numerous options for doing so are discussed in this budget analysis.

A COMPARISON OF GENERAL FUND REVENUE PROJECTIONS

For the 1987 biennium, the Office of the Legislative Fiscal Analyst forecasts general fund revenue totaling $687.8 million or $1.5 million less than the $689.3 million projected in the executive budget before proposed revenue adjustments. Table 1 compares the two revenue estimates by source.

Table 1
A Comparison of General Fund Projections
1987 Biennium

Source	LFA Forecast	Executive Forecast	LFA-Executive Difference
Individual Income Tax	$226,325,000	$229,657,000	$(3,332,000)
Corporation License Tax	60,856,000	64,328,000	(3,472,000)
Coal Severance Tax	37,406,000	36,723,000	683,000
Oil Severance Tax	36,304,000	36,572,000	(268,000)
Interest On Investments	30,224,000	26,209,000	4,015,000
Long-Range Bond Excess	70,675,000	71,630,000	(955,000)
Coal Trust Interest Income	63,934,000	65,178,000	(1,244,000)
Insurance Premiums Tax	34,874,000	33,313,000	1,561,000
Public Institutions Reimb.	27,944,000	26,916,000	1,028,000
Liquor Profits	7,750,000	8,004,000	(254,000)
Liquor Excise Tax	11,496,000	11,632,000	(136,000)
Inheritance Tax	15,785,000	15,495,000	290,000
Metal Mines Tax	2,047,000	1,963,000	84,000
Electrical Energy Tax	5,153,000	5,076,000	77,000
Driver's License Fee	1,600,000	1,558,000	42,000
Telephone License Tax	6,595,000	6,615,000	(20,000)
Beer License Tax	2,511,000	2,548,000	(37,000)
Natural Gas Severance Tax	4,835,000	5,260,000	(425,000)
Freight Line Tax	2,643,000	2,444,000	199,000
Wine Tax	1,953,000	1,928,000	25,000
Other Revenue Sources	36,910,000	36,284,000	626,000
Total	$687,820,000	$689,333,000	$(1,513,000)

The largest dollar differences between the two revenue projections are in individual income tax, corporation license tax, and interest on investments.

In the following sections, the assumptions behind the projections in the categories with large differences are discussed briefly.

Individual Income Tax

For the 1987 biennium, our forecast of general fund revenue from individual income taxes is $3.3 million lower than the executive's projection. Table 2 compares the forecasts by fiscal year.

Table 2
A Comparison of General Fund Revenue from Individual Income Tax

	Fiscal 1986	Fiscal 1987
LFA Forecast	$110,157,000	$116,168,000
Executive Forecast	111,385,000	118,272,000
Difference	$ (1,228,000)	$ (2,104,000)

Our fiscal 1986 forecast is based on 11 months of actual tax activity, two more weeks of data than was available when the executive forecast was made.

For this year and next, we assume more modest income growth than the executive. Our forecasts are based on the assumption of 1.9 percent growth in non-farm labor income in calendar 1986 and 3.7 percent in calendar 1987. In contrast, the executive projections rely on 3.8 percent growth in personal income this year and 8.6 percent in calendar 1987. Behind our forecast of modest income growth in calendar 1986 is the expectation of small wage gains for those working and some job losses in the wake of Burlington Northern and oil-related cutbacks. We expect agricultural production to return to more normal levels after last year's drought.

Corporation License Tax

Our forecast of 1987 biennium general fund revenue from the corporation license tax is $3.5 million lower than the executive's estimate. Table 3 compares the forecasts by fiscal year.

Table 3
A Comparison of General Fund Revenue from Corporation License Tax
Fiscal Years 1986 and 1987

	Fiscal 1986	Fiscal 1987
LFA Forecast	$33,490,000	$27,366,000
Executive Forecast	36,227,000	28,101,000
Difference	$(2,737,000)	$ (735,000)

As Table 3 indicates, most of the revenue difference occurs in fiscal 1986. Our forecast was based on actual collections for the first 11 months of the year. In contrast, the executive projection was made before all taxes which are due May 15 had been deposited in the treasury.

Interest On Investments

Over the 1987 biennium, our forecast anticipates $4.0 million more revenue from interest on investments than does the executive. The difference results from the executive assumption that the average cash balance will be $100 million in fiscal 1987, compared with our forecast of a $152.4 million balance.

The executive holds that its revenue projection coupled with appropriations now on the books would cause a $66.5 million drop in the average cash balance. One of the revenue adjustments proposed in the executive budget is an increase in interest income of $4.7 million from balancing the budget compared with the executive revenue assumption of an unbalanced budget.

In contrast, the LFA projection of a $152.4 million cash balance assumes a balanced budget. According to the constitution, the budget must be balanced with appropriations limited by anticipated revenue.

Table 4 compares fiscal year 1986 and 1987 LFA and executive general fund revenue projections by category.

Table 4
General Fund Revenue Comparison
Fiscal Years 1986 and 1987
(Thousands)

	Fiscal 1986			Fiscal 1987		
Category	LFA	Executive	Difference	LFA	Executive	Difference
Individual Income Tax	$110,157	$111,385	$(1,228)	$116,168	$118,272	$(2,104)
Corporation License Tax	33,490	36,227	(2,737)	27,366	28,101	(735)
Coal Severance Tax	19,995	19,995	-0-	17,411	16,728	683
Oil Severance Tax	22,836	22,526	310	13,468	14,046	(578)
Interest on Investments	15,981	16,001	(20)	14,243	10,208	4,035
Long-Range Bond Excess	35,460	36,070	(610)	35,215	35,560	(345)
Coal Trust Interest Income	29,445	29,074	371	34,489	36,104	(1,615)
Insurance Premiums Tax	16,845	15,943	902	18,029	17,370	659
Public Institutions Reimbur.	13,676	13,284	392	14,268	13,632	636
Liquor Profits	4,119	4,187	(68)	3,631	3,817	(186)
Liquor Excise Tax	5,818	5,906	(88)	5,678	5,726	(48)
Inheritance Tax	7,813	7,659	154	7,972	7,836	136
Metal Mines Tax	994	994	-0-	1,053	969	84
Electrical Energy Tax	2,530	2,529	1	2,623	2,547	76
Driver's License Fees	800	768	32	800	790	10
Telephone License Fees	3,217	3,196	21	3,378	3,419	(41)
Beer License Tax	1,284	1,310	(26)	1,227	1,238	(11)
Natural Gas Severance Tax	2,503	2,627	(124)	2,332	2,633	(301)
Freight Line Tax	1,195	1,195	-0-	1,448	1,249	199
Wine Tax	959	944	15	994	984	10
Other Revenue Sources	17,804	17,648	156	19,106	18,636	470
Total	$346,921	$349,468	$(2,547)	$340,899	$339,865	$ 1,034

GENERAL FUND REVENUE PROJECTIONS

For the 1987 biennium, the Office of the Legislative Fiscal Analyst forecasts general fund revenue will total $687.8 million. Table 1 compares actual fiscal 1985 revenue with projections for fiscal years 1986 and 1987 by category.

Table 1
General Fund Revenue
Fiscal Years 1985 through 1987
(thousands)

Category	Actual FY 1985	- - - Projected - - - FY 1986	FY 1987	- Percent Change - '85-'86	'86-'87
Individual Income Tax	$115,877	$110,157	$116,168	(4.9)	5.5
Corporation License Tax	36,697	33,490	27,366	(8.7)	(18.3)
Coal Severance Tax	17,432	19,995	17,411	14.7	(12.9)
Oil Severance Tax	32,527	22,836	13,468	(29.8)	(41.0)
Interest on Investments	25,724	15,981	14,243	(37.9)	(10.9)
Long-Range Bond Excess	37,536	35,460	35,215	(5.5)	(0.7)
Coal Trust Interest Income	27,400	29,445	34,489	7.5	17.1
Insurance Premiums Tax	15,692	16,845	18,029	7.3	7.0
Public Institutions Reimb.	12,895	13,676	14,268	6.1	4.3
Liquor Profits	4,466	4,119	3,631	(7.8)	(11.8)
Liquor Excise Tax	5,935	5,818	5,678	(2.0)	(2.4)
Inheritance Tax	7,657	7,813	7,972	2.0	2.0
Metal Mines Tax	1,977	994	1,053	(49.7)	5.9
Electrical Energy Tax	2,362	2,530	2,623	7.1	3.7
Driver's License Fees	804	800	800	(0.5)	0.0
Telephone License Fees	2,932	3,217	3,378	9.7	5.0
Beer License Tax	1,156	1,284	1,227	11.1	(4.4)
Natural Gas Severance Tax	2,946	2,503	2,332	(15.0)	(6.8)
Freight Line Tax	1,379	1,195	1,448	(13.3)	21.2
Wine Tax	906	959	994	5.9	3.6
Other Revenue Sources	13,432	17,804	19,106	32.5	7.3
Total	$367,730	$346,921	$340,899	(5.7)	(1.7)

As table 1 indicates, general fund revenue is forecast to decline 5.7 percent in fiscal 1986 and 1.7 percent in fiscal 1987. The largest dollar declines for fiscal 1986 are expected to occur in the oil severance tax where a reduction in the tax rate is accompanied by lower prices and production and in interest on investments where both interest rates and the balance available for investment are projected to fall.

Further declines in oil price, production, interest rates, and investable balances are forecast for fiscal 1987.

Our general fund revenue projections are premised on the assumption current state and federal tax laws remain unchanged during the 1987 biennium. Tax changes made by the Montana legislature or the passage of federal tax reform may affect general fund revenue.

The following sections discuss the basis of the projections for each source of general fund revenue.

INDIVIDUAL INCOME TAX

Individuals earning income in Montana are subject to a tax on their gross incomes after allowance for exemptions and deductions. Sixty-four percent of individual income tax receipts are deposited in the general fund. Table 2 shows general fund revenue from the individual income tax since fiscal 1980 and projections for fiscal years 1986 and 1987.

Table 2
Historic and Projected General Fund Collections of Individual Income Taxes
Fiscal Years 1980 through 1987

Fiscal Year	Collections	Percent Change
1980	$ 86,391,870	---
1981	93,463,223	8.2
1982	92,034,568	(1.5)
1983	97,152,215	5.6
1984	109,021,660	12.2
1985	115,876,580	6.3
- - - - - - - - - - - - - - - - - - - -	- Projected -	- - - - - - - - - - - - - - - - - - - -
1986	110,157,000	(4.9)
1987	116,168,000	5.5

The indexing of tax liabilities began with calendar year 1981. With indexing, the value of the personal exemption, the standard deduction, and the sizes of the tax brackets are determined by the increase in the consumer price index from June 1980

to June of the calendar year for which the tax return is filed. Our forecasts are based on a 1.1 percent increase in the consumer price index between June 1985 and June 1986 and a 2.9 percent increase the following year.

In our projections, Montana income is anticipated to grow 2 percent in calendar 1986 and almost 4 percent next year. Tax collections rise because the rate of income growth exceeds the rate of inflation and because the use of tax credits to reduce liabilities is forecast to decline as investment tax credits shrink.

Not included in our revenue projections is the impact of federal tax reform. The current Senate proposal calls for the elimination of some tax deductions January 1, 1987 and a reduction in tax rates July 1, 1987. The proposed federal changes affect Montana tax revenue in two ways. First, because Montana's definition of adjusted gross income is closely linked to the federal, eliminating credits would increase Montana adjusted gross income and taxes due. Second, if lower tax rates translate to lower federal tax payments, the change would reduce the state itemized deduction for federal taxes for the two-thirds of Montanans who itemize and, consequently, increase the amount of state taxes owed. How federal tax reform affects individual income tax revenue depends on the specifics of the proposal which passes Congress.

CORPORATION LICENSE TAX

Each corporation doing business in Montana is assessed a corporation license tax equal to 6.75 percent of its net income. Corporations are subject to a minimum tax of $50. When a company's fiscal year corresponds with the calendar year as it does for most corporations, the tax is due May 15 on net income earned during the preceding calendar year. Those corporations which operate in other states and/or countries and are classified as unitary (i.e., business within Montana is dependent upon and contributory to business outside the state) must apportion income to Montana for tax purposes using a formula which considers the proportions of worldwide sales, payroll, and property in Montana.

Table 3 shows total and general fund collections of the corporation license tax since fiscal 1980 and projections for fiscal years 1986 and 1987.

Table 3
Historic and Projected Corporation License Tax Revenue
Fiscal Years 1980 through 1987

Fiscal Year	Total Revenue	General Fund Revenue	Percent Change in General Fund Revenue
1980	$45,623,189	$26,658,417	---
1981	52,900,964	30,962,755	16.2
1982	44,630,472	26,234,444	(15.3)
1983	35,824,951	20,733,658	(21.0)
1984	35,396,239	20,547,177	(0.9)
1985	62,670,886	36,697,611	78.6
- Projected -			
1986	57,697,000	33,490,000	(8.7)
1987	46,532,000	27,366,000	(18.3)

Distribution of corporation license tax collections depends on the source of the revenue. Revenue collected from banks and savings and loan associations is distributed 80 percent to the taxing jurisdictions in which the financial institution is located and 20 percent to the state. Combining this 20 percent with all revenue from corporations other than financial institutions, 64 percent of the total is deposited in the general fund, 25 percent in the school equalization aid account, and 11 percent in the long-range building debt service account.

While corporation taxes are dependent on the profitability of corporations operating in Montana, two other factors contribute to fluctuations in tax receipts: tax credits and audit collections. Credits causing the largest reductions in tax liabilities during the last five years were the business inventory tax and the investment tax credit. Because business inventories are no longer taxed and the investment tax credit has been reduced to 5 percent of the federal credit, the effect of tax credits on revenue is expected to be much less in the future than the recent past.

As table 4 shows, audit collections have contributed to fluctuations in corporation tax revenue.

Table 4
Corporation Tax Revenue and Audit Collections
Fiscal Years 1982 through 1985

Fiscal Year	Total Revenue	Audit Collections	Revenue from Other Sources
1982	$44,630,472	$ 5,283,256	$39,347,216
1983	35,824,951	10,441,348	25,383,603
1984	35,396,239	4,616,498	30,779,741
1985	62,670,886	16,578,676	46,092,209

Audit collections are expected to total approximately $9.5 million in fiscal 1986 and $5.0 million in fiscal 1987.

To forecast fiscal 1986 revenue, collections through May were assumed to equal 99 percent of annual revenue based on the historic collection pattern of the last three years. The projection for fiscal 1987 was based on the Wharton Econometrics' forecast of U.S. corporate profits before taxes which shows only 1 percent growth and the assumption audits return to a more normal level of $5.0 million.

COAL SEVERANCE TAX

All coal companies whose annual production is 50,000 tons or greater must pay coal severance taxes on annual production in excess of 20,000 tons. For coal with a per pound heating value of 7,000 BTU's or greater, the severance tax rate is 30 percent of the contract sales price. For coal with a lower heating value, the severance tax rate is 20 percent. Over 99 percent of Montana's coal production is taxed at the 30 percent rate.

Coal severance tax collections fell by 8.2 percent, or $7.56 million, from fiscal 1985 to fiscal 1986. A further decline of $0.88 million is projected for fiscal 1987. While total collections fell in fiscal 1986, the coal severance tax deposit to the general

fund increased due to an increase in the general fund share of total coal tax collections. The general fund received 19 percent of coal tax collections in fiscal 1985, 23.75 percent in fiscal 1986, and will receive 20.9 percent in fiscal 1987. Table 5 shows the historic and projected coal tax deposits to the general fund in fiscal years 1980 through 1987.

Table 5
Historic and Projected General Fund Revenue from the Coal Severance Tax
Fiscal Years 1980 through 1987

Fiscal Year	Revenues	Percent Change
1980	$20,222,579	---
1981	13,378,906	(33.8)
1982	16,375,541	22.4
1983	15,208,581	(7.1)
1984	15,736,468	3.5
1985	17,432,312	10.8
- - - - - - - - - - - - - - - - - - - -	Projected	- - - - - - - - - - - - - - - - - - - -
1986	19,994,900	14.7
1987	17,411,000	(12.9)

Montana's coal production has grown slowly in the 1987 biennium. Production is now projected to grow by only 4.3 percent from fiscal 1985 to fiscal 1987. Competition from Powder River Basin coal in Wyoming, Canadian hydropower, and increased use of oil-fired plants in California has slowed the growth in demand for Montana coal. In April 1986, Western Energy reduced its projected calendar year 1986 production for the Colstrip plants by 1.3 million tons due to reduced sales of electricity to California.

Table 6 shows historic and projected coal production, price, and tax collections for fiscal years 1980 through 1987.

Table 6
Historic and Projected Taxable Coal Production, Price and Severance Tax Collections
Fiscal Years 1980 through 1987

Fiscal Year	Coal Production (tons)	Contract Sales Price	Coal Tax Collections
1980	34,359,771	$ 7.30	$74,252,715
1981	30,136,682	7.84	70,415,074
1982	31,983,591	9.00	86,386,848
1983	26,448,307	10.11	80,044,981
1984	27,394,512	10.10	82,823,411
1985	31,002,175	9.88	91,748,856
- Projected -			
1986	31,114,028	9.07	84,189,052
1987	32,337,000	8.76	83,305,884

The average contract sales price for Montana's coal has fallen in the 1987 biennium from the previous biennium. The major explanation is the cancellation of two million tons of production under the Decker contract with the Lower Colorado River Authority (LCRA). The LCRA contract was a higher-priced contract compared to other Decker and Montana coal contracts. While Decker was able to offset its production losses through a 1.7 million ton contract with a new customer, it did so at a significantly lower price. The average contract sales price for Decker and Montana coal has fallen as a result.

The fiscal 1987 price estimate anticipates that the average price of Montana coal will fall in response to the reduction in the contract sales price for Decker Coal. For other Montana producers, the price of coal is expected to remain stable or decrease slightly. The royalty reduction formula, which allows producers to deduct federal, state and tribal royalties in the calculation of the contract sales price, will serve to restrain or lower the contract sales price for Montana coal in fiscal 1987. Western Energy and Decker Coal have large federal leases which will be renewed at a 12.5 percent royalty rate in fiscal 1987. The former royalty rate on these leases was

$0.20/ton. The effect of the royalty reduction formula will be to restrain the price increase which would have otherwise occurred.

Finally, the coal production incentive tax credit, which was approved by the 1985 legislature in House Bill 607, will be an important factor affecting coal tax collections in the 1987 biennium. The tax credit on calendar 1985 and 1986 production is applied against quarterly tax payments in 1986 and 1987, respectively. In fiscal 1986, the tax credit applied only to the last quarter of tax collections, but it will be applied to all four quarters of fiscal 1987 collections. Of the $1.08 million tax credit which will be given on calendar year 1985 coal production, Decker Coal will receive $814,250 or 75 percent. The coal production incentive tax credit was $270,462 in fiscal 1986 and is projected to be $1.46 million in fiscal 1987.

Table 7 shows the distribution of coal tax collections among recipients for fiscal years 1986 and 1987.

Table 7
Distribution of Coal Severance Taxes
Fiscal 1986 and 1987

Category	Fiscal 1986 Percent Allocation	Actual Fiscal 1986	Fiscal 1987 Percent Allocation	Projected Fiscal 1987
Constitutional Trust	50.00	$42,094,526	50.00	$41,652,942
General Fund	23.75	19,994,900	20.90	17,410,930
Education Trust	10.00	8,418,905	8.80	7,330,918
Local Impact	3.00	2,525,671	2.64	2,199,275
Public School Equalization	5.00	4,209,453	4.40	3,665,459
Parks Acquisition/Cultural Projects	2.50	2,104,726	2.20	1,832,729
Alternative Energy	1.25	1,052,363	1.10	916,365
Renewable Resources Development	0.63	526,182	0.55	458,182
Water Development	0.63	526,182	0.55	458,182
County Land Planning	0.50	420,945	0.44	366,546
Library Commission	0.50	420,945	0.44	366,546
Conservation Districts	0.25	210,473	0.22	183,273
Hwy Reconstruction Trust	2.00	1,683,781	7.76	6,464,537
Total	100.00	$84,189,052	100.00	$83,305,884

Since January 1983, the coal severance taxes paid by Westmoreland Coal Company for production on Crow tribal-owned land have been escrowed. The balance in the escrowed account now totals $21.5 million. In September 1985, the federal district court in Billings confirmed the state's authority to tax production of tribal-owned coal on off-reservation land. However, the case has been appealed to the 9th Circuit Court of Appeals in San Francisco. If distribution of the escrowed taxes were to occur in the 1987 biennium, the general fund would gain at least $3.8 million.

OIL SEVERANCE TAX

In its 1981 regular session, the legislature raised the oil severance tax from 2.1 percent on the first $6,000 of total gross value and 2.65 percent on the excess to 5 percent on all crude oil produced excluding that used in production operations. The tax rate increased to 6 percent on April 1, 1983 and decreased to 5 percent on April 1, 1985. One-third of total oil severance tax receipts are earmarked for the local government block grant program. Counties with an increase in production during a fiscal year receive the tax collected on that increase; the state now withholds estimated county payments during the year production takes place and compensates counties the following year. In fiscal years 1984 and 1985, county payments were made with a general fund appropriation, rather than with funds withheld from revenue. Table 8 shows general fund revenue from the oil severance tax since fiscal 1980 and projections for fiscal years 1986 and 1987.

Table 8
Historic and Projected General Fund Revenue from the Oil Severance Tax
Fiscal Years 1980 through 1987

Fiscal Year	Revenue	Percent Change
1980	$10,544,555	---
1981	18,654,469	76.9
1982	45,473,425	143.8
1983	43,787,960	(3.7)
1984	32,686,015	(25.4)
1985	32,526,656	(0.5)
- - - - - - - - - - - - - - - - - - - Projected - - - - - - - - - - - - - - - - - - -		
1986	22,836,000	(29.8)
1987	13,468,000	(41.0)

Approximately three-fourths of the revenue increase occurring in fiscal 1982 was due to the higher tax rate imposed that year. In fiscal 1984, the decline in tax revenue was attributable to declines in taxable production and price and to earmarking one-third of tax collections for local governments.

Table 9 shows taxable production and average price since fiscal 1980.

Table 9
Taxable Oil Production and Average Price
Fiscal Years 1980 through 1987

Fiscal Year	Taxable Production (barrels)	Percent Change	Average Price
1980	28,682,202	(1.3)	$14.29
1981	28,431,470	(0.8)	26.25
1982	30,362,796	6.8	33.83
1983	29,551,328	(2.7)	30.53
1984	28,517,073	(3.5)	28.54
1985	29,871,626	4.7	27.16
- - - - - - - - - - - - - - - - - - - Projected - - - - - - - - - - - - - - - - - - -			
1986	28,985,000	(3.0)	24.07
1987	27,536,000	(5.0)	15.00

For the first three quarters of fiscal 1986, taxable production has fallen 2.3 percent compared with the same period in fiscal 1985 and price has averaged $25.36. Fiscal 1986 revenue is assumed to equal $22,836,000 based on an average price of $24.07 and a 3 percent decline in taxable production.

Taxable production is expected to continue its decline in fiscal 1987. Compared with the same period in the preceding year, fiscal 1986 production was down 0.7 percent in the June quarter, down 2.0 percent in the September quarter, and down 4.2 percent in the December quarter. If the rate of decline accelerates to 5.0 percent for the March quarter, fiscal 1986 taxable production will total 28,985,000 barrels, a 3.0 percent decline from fiscal 1985. Shutdowns of stripper wells and cuts in exploration and development budgets coupled with natural production declines are projected to result in a 5 percent decrease in taxable production in fiscal 1987.

As has been the experience of the recent past, the price of crude oil is expected to fluctuate in fiscal 1987. Current refiners' contract prices in Montana appear to average about $13 in late May. Our forecast of $15 for the year requires a price increase from the present level during the year.

INTEREST ON INVESTMENTS

Interest on investments not earmarked for other accounts is deposited in the general fund. This pool of investments is known as the treasurer's fund. Shown in Table 10 are interest earned on the treasurer's fund, the average yield, and the average balance without the proceeds from the sale of tax or revenue anticipation notes (TRANS).

Table 10
Historical and Projected Interest on the Treasurer's Fund and Average Balance
Fiscal Years 1980 through 1987

Fiscal Year	Interest On Treasurer's Fund	Average Interest Rate	Average Balance Without TRANS (Millions)
1980	$18,644,739	9.19%	$169.6
1981	26,518,071	11.04%	203.3
1982	42,442,555	13.59%	274.8
1983	29,918,421	10.87%	249.9
1984	23,898,968	10.75%	222.2
1985	25,723,532	9.87%	226.5
- Projected -			
1986	15,981,000	7.70%	163.4
1987	14,243,000	7.11%	152.4

To project interest earned on the treasurer's fund, three variables must be forecast: the average interest rate the fund will earn, the average balance without TRANS proceeds, and the average amount of TRANS proceeds in the treasurer's fund (which is based on the timing and amount of the TRANS sale).

After beginning the year above 8 percent, the yield on the treasurer's fund fell to 7.4 percent in March. A further decline is anticipated in the final quarter of fiscal 1986, giving an average interest rate of 7.70 percent for the year. Based on forecasts by Wharton Econometrics, the interest rate is projected to average 7.11 percent in fiscal 1987.

The shortfall of general fund revenue compared with expenditures in fiscal 1986 has contributed to a drop in cash available for investment. Year-to-date experience indicates the balance will average $163.4 million for the year. If fiscal 1987, the average balance is expected to decline to $152.4 million with additional reductions in the average general fund balance. Our forecasted balance does, however, assume action will be taken to balance the budget for the biennium.

The revenue forecast also assumes $50 million of TRANS are sold early in fiscal 1987.

LONG-RANGE BOND EXCESS

The bond transfer to the general fund is made from the long-range building program debt service account and is equal to the balance in the account in excess of that which must be held for future principal and interest payments. Since funds for principal and interest payments come from a general fund appropriation, all revenue deposited in this debt service account is available for transfer to the general fund. The debt service account receives 11 percent of individual income and corporation license tax receipts paid to the state, 79.75 percent of the cigarette tax, and the tobacco products tax. Table 11 shows bond transfers to the general fund since fiscal 1980 and projections for fiscal years 1986 and 1987.

Table 11
Historic and Projected Long-range Bond Excess to the General Fund
Fiscal Years 1980 through 1987

Fiscal Year	Transfer	Percent Change
1980	$20,700,000	---
1981	26,500,000	28.0
1982	29,450,000	11.1
1983	22,797,971	(22.6)
1984	41,682,643	82.8
1985	37,535,668	(9.9)
- Projected -		
1986	35,460,000	(5.5)
1987	35,215,000	(0.7)

Long-range building bonds were refinanced during fiscal 1984 which inflated the general fund transfer for that year by approximately $13.1 million.

Most revenue transferred to the general fund from the debt service account is derived from the individual income and corporation license tax. The assumptions underlying the revenue projections for those taxes have been discussed previously.

Currently cigarettes are taxed at the rate of 16 cents per package, with sellers receiving a discount which averages 5 percent for affixing the tax insignia and precollecting the tax on behalf of the state. Packages of cigarettes sold in Montana declined at an average rate of 4 percent annually between fiscal 1983 and 1985. Based on year-to-date experience, cigarette sales are anticipated to decline 2.5 percent in fiscal 1986 and another 2.5 percent in fiscal 1987. The long-range building program debt service account receives 79.75 percent of total revenue from the cigarette tax.

All revenue from the tobacco products tax is deposited in the debt service account. The tax is levied at the rate of 12.5 percent on the wholesale price of tobacco products other than cigarettes. To defray the costs of collection and administration, wholesalers are granted a discount of 5 percent, making the effective tax rate 11.875 percent. Collections in fiscal 1986 through April are above those for the same time period in the preceding year. During each fiscal 1986 and 1987, revenue was assumed to increase 4.6 percent based on the increase observed in fiscal 1986.

COAL TAX FUND INTEREST

The permanent coal tax trust fund receives 50 percent of annual coal severance tax collections and 15 percent of its own interest. The remaining 85 percent of the trust fund interest is deposited to the general fund.

The coal severance tax bond program was established by the 1981 legislature to promote water development projects in Montana. These bonds are subsidized by the coal tax deposit to the permanent trust when water development loan repayments do not cover debt service costs. The coal tax subsidy for debt service of coal severance tax bonds is projected to be less than $400,000 for each year of the 1987 biennium.

Table 12 shows the historic and projected coal trust deposits to the general fund. Fiscal 1984 was the first year that 15 percent of the trust fund earnings were

re-invested in the permanent trust. Prior to fiscal 1984, the general fund received 100 percent of the coal trust interest earnings.

Table 12
Historic and Projected Coal Trust Earnings to the General Fund
Fiscal Years 1980 through 1987

Fiscal Year	Revenue	Percent Change
1981	$ 7,421,902	---
1982	11,542,421	55.5
1983	18,466,762	60.0
1984	18,947,636	2.6
1985	27,400,000	44.6
- - - - - - - - - - - - - - - - - -	Projected	- - - - - - - - - - - - - - - - - - -
1986	29,445,000	7.5
1987	34,489,000	17.1

Interest earnings on the coal tax trust fund are directly related to coal tax collections and interest rates. The decline in coal tax collections in the 1987 biennium has had the obvious effect of reducing the principal available for investment, which over the long-term will effect the level of investment earnings.

In the 1987 biennium, falling interest rates on new securities have caused a decline in the average yield of the coal tax trust. At the same time, the trust fund has profited from falling interest rates through the sale of long-term securities. Corporations which issued long-term securities at 13 to 16 percent interest rates have "called in", or refunded, these securities and paid a premium to the bondholders to do so. Profits (or losses) on the sale of trust fund securities are credited as current year investment income and are not re-invested in the trust fund. In fiscal 1987, the general fund is expected to gain over $5.4 million from bond calls.

While bond calls increase profits in the short-run, they also accelerate the decline in the average yield of the trust fund. When the principal from the bond sale is re-invested, it is re-invested at current (lower) interest rates. Over the

long-term, the lower trust fund earnings will partially offset the profits that have been made in the short-run.

Table 13 shows the interest rate assumptions that have been used to project earnings on the permanent coal tax trust.

Table 13
Interest Rate Assumptions for Projecting Coal Tax Trust Earnings
1987 Biennium

	Fiscal 1986	Fiscal 1987
New Long-Term Securities	10.72%	9.25%
Short-Term Investments	8.35%	7.28%

INSURANCE TAXES

Insurance companies operating in the state are required to pay a tax equal to 2 3/4 percent of net premiums on policies sold in Montana (Section 33-2-705, MCA). From collections of the insurance tax, payments are made to police and firefighters' pension funds. Beginning in fiscal 1986, the insurance department in the State Auditor's Office is funded from insurance premium taxes. After payments to pension funds and expenditure by the insurance department, the remainder of tax receipts are deposited in the general fund. Since fiscal 1980, general fund revenue from insurance taxes has fluctuated as shown in table 14.

Table 14
Historic and Projected General Fund Revenue from Insurance Taxes
Fiscal Years 1980 through 1987

Fiscal Year	Collections	Percent Change
1980	$11,031,794	---
1981	9,551,061	(13.4)
1982	12,790,003	33.9
1983	13,001,479	1.6
1984	13,621,332	4.8
1985	15,691,565	15.2
- Projected -		
1986	16,845,000	7.3
1987	18,029,000	7.0

The revenue decline in fiscal 1981 is due to a change in accounting procedures, not a drop in collections.

The procedure used in forecasting general fund revenue from insurance premium taxes was to project total insurance premium taxes, then subtract an estimate of required pension fund payments and insurance department expenditures to determine the general fund deposit. Total insurance premium taxes are expected to grow 12.3 percent in fiscal 1986, a projection based on year-to-date receipts. In fiscal 1987, taxes were forecast to increase 7.4 percent consistent with average growth over the preceding five years. Included in the projections is revenue from the 45 cents annual charge per Montana resident covered by a health insurance policy; this charge was first imposed in fiscal 1986 and was designed to fund a genetics program which received a general fund appropriation.

Payments to police and firefighters' pension funds are forecast to increase from $4.3 million in fiscal 1985 to $4.9 million in fiscal 1986 and $5.4 million in fiscal 1987, for growth of 13.0 percent in fiscal 1986 and 9.7 percent in fiscal 1987. Responsible for most of the growth are increases in the contribution rates paid by the state which

became effective July 1, 1985. In addition, revenue from insurance premium taxes are now required to amortize unfunded liabilities incurred under a prior plan when cities join the pension plan administered by the state. Payments for the unfunded liability began in fiscal 1986 and are forecast to total $95,000 each year of the biennium.

Lastly, revenue was reduced by approximately $715,000 each year for the appropriation from insurance taxes to fund the Insurance Division in the State Auditor's Office. Remaining taxes after payments to pension funds and funding of the Insurance Division were assumed to be deposited in the general fund.

INSTITUTIONAL REIMBURSEMENT

Five of Montana's state institutions -- Montana Development Center, Center for the Aged, Eastmont, Montana State Hospital (which includes the Galen and Warm Springs campuses), and the Veteran's Home -- collect partial reimbursement for the costs of patient care. While all funds which reimburse the Veteran's Home and funds from the alcohol program at Galen are returned to those institutions, other reimbursements are deposited in the general fund. Table 15 shows general fund collections of institutional reimbursement since fiscal year 1980 and projections for fiscal years 1986 and 1987.

Table 15
Historic and Projected General Fund Collections of Institutional Reimbursement
Fiscal Years 1980 through 1987

Fiscal Year	Collections	Percent Change
1980	$ 7,992,615	---
1981	9,972,309	24.7
1982	10,974,197	10.0
1983	11,406,505	3.9
1984	9,179,920	(19.5)
1985	12,895,427	40.5
- Projected -		
1986	13,676,000	6.1
1987	14,268,000	4.3

Table 17
Historic and Projected Unit Sales by the Liquor Division
Fiscal Years 1980 through 1987

	Liquor		Wine	
Fiscal Year	Unit Sales	Percent Change	Unit Sales	Percent Change
1980	7,358,847	---	837,252	---
1981	7,518,342	2.2	661,592	(21.0)
1982	7,381,728	(1.8)	679,817	2.8
1983	7,147,581	(3.2)	555,635	(18.3)
1984	6,846,154	(4.0)	446,793	(19.6)
1985	6,317,465	(7.7)	333,922	(25.3)
Projected				
1986	5,979,000	(5.4)	299,000	(10.5)
1987	5,740,000	(4.0)	287,000	(4.0)

Unit sales shown for fiscal 1986 are projected from year-to-date sales through March. In fiscal 1987, sales are expected to continue their decline, but at a somewhat slower rate than in the recent past.

Fiscal 1986 liquor prices rise from the fiscal 1985 level due primarily to the $2 per gallon increase in the federal excise tax last October which was reflected in higher retail selling prices. Apart from the effect of the federal excise tax, the average price of liquor has changed little since fiscal 1984 and is expected to remain at this year's level in fiscal 1987. Wine prices, in contrast, have fluctuated over time and are expected to increase almost 5 percent in fiscal 1987 over the fiscal 1986 level which was projected from year-to-date sales through March.

Through the first nine months of fiscal 1986, the Liquor Division held operating expenses 2.8 percent below expenses for the same period in fiscal 1985. This trend is forecast to continue this year and expenses to hold constant in fiscal 1987.

Table 16
Historic and Projected Liquor Profits and General Fund Deposit
Fiscal Years 1980 through 1987

Fiscal Year	Liquor Profits	General Fund Deposit
1980	$6,028,438	$5,500,887
1981	6,028,851	7,499,113
1982	5,681,187	5,750,000
1983	5,010,213	4,500,000
1984	5,408,943	5,782,000
1985	4,340,660	4,466,000
- - - - - - - - - - - - - - - - - - - -	Projected	- - - - - - - - - - - - - - - - - - - -
1986	4,119,000	4,119,000
1987	3,631,000	3,631,000

The Liquor Division determines the amount transferred to the general fund which need not match profits earned.

Profits earned by the Liquor Division depend on the units of liquor and wine sold, prices, and operating expenses. During the past five years, unit sales of liquor and wine in state stores and agencies have declined, a trend expected to continue in the forecast period. Table 17 shows unit sales by the Liquor Division since fiscal 1980 and projections for fiscal years 1986 and 1987.

Fiscal 1984 revenue was deflated by $2.4 million of institutional reimbursement earned that year which was not credited to the general fund until the following year.

Four sources contribute to institutional reimbursement: private resources of the patients or parties responsible for them, insurance, medicare, and medicaid. In fiscal 1985, medicaid payments accounted for 89 percent of total institutional reimbursement. Medicaid reimbursement was forecast based on the assumption that patient days would remain at the fiscal 1985 level, reimbursement rates would rise 3 percent in fiscal 1987 over the actual fiscal 1986 rates, and the Montana Youth Treatment Center would not gain certification in the 1987 biennium.

Fiscal 1986 revenue includes $285,000 attributable to the Department of Institution's decision to release funds previously held in patients' accounts for Center for the Aged and Eastmont residents. Another $1.55 million was transferred to the general fund as prior year revenue. The patients' accounts lawsuit was initiated over ten years ago and challenged the department's authority to collect reimbursement from a patient's private resources. Still in the trust accounts is a balance of approximately $3 million held for Montana Development Center and Montana State Hospital patients which the department has indicated will not be deposited in the general fund until the lawsuit is settled. Our forecast assumes the lawsuit will not be resolved this biennium and the funds will not be transferred.

LIQUOR PROFITS

The Liquor Division in the Department of Revenue operates stores throughout Montana which sell liquor and wine to the public and other retail establishments. Table 16 shows liquor profits earned and the general fund deposit made by the division since fiscal 1980 and gives projections for fiscal years 1986 and 1987.

Table 17
Historic and Projected Unit Sales by the Liquor Division
Fiscal Years 1980 through 1987

	Liquor		Wine	
Fiscal Year	Unit Sales	Percent Change	Unit Sales	Percent Change
1980	7,358,847	---	837,252	---
1981	7,518,342	2.2	661,592	(21.0)
1982	7,381,728	(1.8)	679,817	2.8
1983	7,147,581	(3.2)	555,635	(18.3)
1984	6,846,154	(4.0)	446,793	(19.6)
1985	6,317,465	(7.7)	333,922	(25.3)
Projected				
1986	5,979,000	(5.4)	299,000	(10.5)
1987	5,740,000	(4.0)	287,000	(4.0)

Unit sales shown for fiscal 1986 are projected from year-to-date sales through March. In fiscal 1987, sales are expected to continue their decline, but at a somewhat slower rate than in the recent past.

Fiscal 1986 liquor prices rise from the fiscal 1985 level due primarily to the $2 per gallon increase in the federal excise tax last October which was reflected in higher retail selling prices. Apart from the effect of the federal excise tax, the average price of liquor has changed little since fiscal 1984 and is expected to remain at this year's level in fiscal 1987. Wine prices, in contrast, have fluctuated over time and are expected to increase almost 5 percent in fiscal 1987 over the fiscal 1986 level which was projected from year-to-date sales through March.

Through the first nine months of fiscal 1986, the Liquor Division held operating expenses 2.8 percent below expenses for the same period in fiscal 1985. This trend is forecast to continue this year and expenses to hold constant in fiscal 1987.

LIQUOR EXCISE TAX

Section 16-1-401, MCA, authorizes collection of a liquor excise tax and sets the rate at 16 percent of the retail selling price. (The retail selling price is defined as

the state's cost plus mark-up and is less than a customer pays in a state liquor store.) All revenue collected from the tax is deposited in the general fund. As shown in table 18, the growth in excise tax collections has slowed since fiscal 1980 and became negative during the last three fiscal years, a trend forecast to continue in fiscal years 1986 and 1987.

Table 18
Historic and Projected Liquor Excise Tax Collections
Fiscal Years 1980 through 1987

Fiscal Year	Collections	Percent Change
1980	$5,764,741	(17.9)
1981	6,340,958	10.0
1982	6,572,066	3.6
1983	6,599,727	(0.2)
1984	6,415,784	(2.2)
1985	5,935,058	(7.5)
- Projected -		
1986	5,818,000	(2.0)
1987	5,678,000	(2.4)

The decline in tax collections reflects the drop in unit sales, discussed in the section on liquor profits, which are partially offset by price increases.

INHERITANCE TAX

Title 72 of the Montana Code Annotated authorizes the collection of inheritance and estate taxes. The inheritance tax liability depends on the size of an estate and the relationship of the heirs to the descendant. Estate taxes also depend on the size of the estate and are equal to the credit allowed by the federal estate tax for state taxes. Since fiscal 1980, collections from inheritance and estate taxes have generally declined as shown in table 19.

Table 19
Historic and Projected Inheritance Tax Revenue
Fiscal Years 1980 through 1987

Fiscal Year	Collections	Percent Change
1980	$8,537,242	---
1981	6,195,069	(27.4)
1982	7,680,529	24.0
1983	6,398,489	(16.7)
1984	5,960,471	(6.8)
1985	7,656,622	28.5
- - - - - - - - - - - - - - - - - - - -	Projected	- - - - - - - - - - - - - - - - - - - -
1986	7,813,000	2.0
1987	7,972,000	2.0

The general downward trend in tax collections since fiscal 1980 can be attributed to several statutory changes. At the state level, the 1979 legislature exempted the inheritance received by a decedent's spouse from taxation, while the 1981 legislature eliminated the tax on the inheritance of lineal descendants. At the national level, the Economic Recovery Tax Act of 1981 modified federal estate tax laws. Modifications enacted include increases in the unified credit and elimination of the tax on transfers between spouses.

For fiscal 1986, the projection of inheritance tax collections was based on year-to-date collections through April and the historic collection pattern for the last three years. The 2.0 percent growth rate of fiscal 1986 was assumed to continue in fiscal 1987.

METAL MINES TAX

The metal mines tax is levied on producers of gold, silver, copper, lead, and any other metal or precious or semiprecious gems or stones of any kind. Beginning with the calendar 1985 tax year, no tax will be assessed on the first $250,000 of gross value of metal mined, exempting mines with little output, and the marginal tax

rate rises from 0.5 percent on the second $250,000 of gross value to 1.5 percent on gross value over $1,000,000. Collections for tax years beginning after December 31, 1984 are allocated 67 percent to the general fund and 33 percent to the hard-rock mining impact trust account. The tax is due on March 1 for production during the preceding calendar year. Prior to calendar year 1985, the tax rate varied from 0.15 percent on the first $100,000 to 1.438 percent on value over $500,000. All revenue was deposited in the general fund.

Table 20 shows general fund revenue from the metal mines tax since fiscal 1980.

Table 20
Historic and Projected Collections of the Metal Mines Tax
Fiscal Years 1980 through 1987

Fiscal Year	Collections	Percent Change
1980	$2,516,820	---
1981	1,564,569	(37.8)
1982	1,861,209	19.0
1983	1,542,061	(17.1)
1984	2,630,135	70.6
1985	1,977,324	(24.8)
- - - - - - - - - - - - - - - - - - - -	Projected	- - - - - - - - - - - - - - - - - - - -
1986	994,000	(49.7)
1987	1,053,000	5.9

The increase in fiscal 1984 tax collections reflects the opening of the Golden Sunlight Mine and expansion of production by ASARCO.

During fiscal years 1980 through 1983, the Anaconda Company paid the majority of the metal mines tax and revenue was dependent on the price of copper and production levels by that company. In fiscal years 1984 and beyond, most of the tax was paid by gold and silver producers.

Fiscal 1986 revenue was assumed to equal the $994,000 collected year-to-date. Since the tax is due March 1 for production during the preceding calendar year, no additional tax collections are expected in the last month of the fiscal year.

Projections of future revenue from the metal mines tax were made by assuming production remains at calendar 1985 levels for current operations and no new mines commence operations. The price of silver is forecast to fall from the $6 level of calendar 1985 to $5.00 per ounce in 1986. Gold is projected to sell for $340 per ounce, which is higher than its $317 average for calendar 1985. The last major metal produced in Montana, copper, is forecast to have an average price of 65¢ in calendar 1986, compared with 56¢ last year.

ELECTRICAL ENERGY PRODUCERS LICENSE TAX

Electrical energy producers are taxes $0.0002 per kilowatt hour (kwh) on electricity or electrical energy generated, manufactured, or produced in the state of Montana. Since fiscal 1980, the license tax revenue has grown as shown in table 21. Table 21 also includes projections for fiscal years 1986 and 1987.

Table 21
Historic and Projected Electrical Energy Producer's License Tax Revenue
Fiscal Years 1980 through 1987

Fiscal Year	Revenue	Percent Change
1980	$2,060,960	---
1981	1,367,959	(33.6)
1982	1,753,173	28.2
1983	1,546,157	(11.8)
1984	2,413,172	56.1
1985	2,361,855	(2.1)
- - - - - - - - - - - - - - - - - - - Projected - - - - - - - - - - - - - - - - - - -		
1986	2,530,000	7.1
1987	2,623,000	3.7

Several factors account for the fluctuations in revenue. First, in fiscal 1981, Montana Power underpaid its taxes to compensate for overpayments in the preceding three years. Second, fiscal 1984 revenue was inflated by audit collections of $552,000.

Since the final tax payment for the fiscal year is due April 30, fiscal 1986 revenue was forecast to equal revenue collected through the end of May. Fiscal 1987 production was assumed to remain at the fiscal 1986 level plus the increase attributable to Colstrip 4's being available for production the entire year compared with four months in fiscal 1986. Consistent with the coal production assumptions in our revenue projections, electrical energy production reflects no surplus power sales in California.

DRIVERS LICENSE FEES

Section 61-5-111(6), MCA establishes fees for the issuance of driver's licenses and motorcycle endorsements. The general fund receives 40 percent of the revenue from drivers licenses and 60 percent from motorcycle endorsements. As shown in table 22, general fund revenue has declined since fiscal 1980 and is expected to remain at the $800,000 level in fiscal years 1986 and 1987.

Table 22
Historic and Projected General Fund Collections from Driver's License Fees
Fiscal Years 1980 through 1987

Fiscal Year	Collections	Percent Change
1980	$1,189,407	---
1981	1,163,701	(2.2)
1982	916,652	(21.2)
1983	816,376	(10.9)
1984	799,652	(2.0)
1985	803,983	0.5
- Projected -		
1986	800,000	(0.5)
1987	800,000	0.0

The size of the drop in fiscal 1982 revenue is attributable to the redistribution of total receipts: beginning October 1, 1981, 35 percent, rather than 5 percent, of collections from driver's license fees was deposited in the state traffic safety

education account. Counties collecting the fees retain 3 1/3 percent of driver license fees and 5 percent of motorcycle endorsements.

Based on year-to-date receipts, fiscal 1986 driver's license fee revenue appears to be catching up to the level of the previous two years. Consequently, general fund revenue for both fiscal 1986 and 1987 is forecast to total $800,000.

TELEPHONE COMPANY LICENSE TAX

Authorized by Section 15-53-101, MCA, the telephone company license tax is equal to 1.725 percent of gross income in excess of $250 quarterly derived from any telephone business within the state.

Since fiscal 1980, collections of the telephone company license tax have risen from $1.8 million to $2.9 million as shown in table 23. Revenue is expected to increase to $3.4 million in fiscal 1987.

Table 23
Historic and Projected Telephone Company License Tax Revenue
Fiscal Years 1980 through 1987

Fiscal Year	Collections	Percent Change
1980	$1,783,776	9.2
1981	2,039,383	14.3
1982	2,167,815	6.3
1983	2,463,670	13.6
1984	2,521,905	2.4
1985	2,931,732	16.2
- - - - - - - - - - - - - - - - - - - -	Projected	- - - - - - - - - - - - - - - - - - - -
1986	3,217,000	9.7
1987	3,378,000	5.0

Because tax receipts rise with the gross incomes of covered telephone companies, tax increases are due to growth in the quantity of services provided and to the Public Service Commission's (PSC) granting rate increases. Since Mountain Bell pays the majority of the tax (70 percent in fiscal 1985), decisions in its rate cases account for

the largest part of the increase in tax collections above that induced by growth or shrinkage in the quantity of services provided. AT&T Communications paid 18 percent of total taxes collected in fiscal 1985.

Fiscal 1986 taxes are to total $3,217,000 based on year-to-date collections. In fiscal 1987, revenue is expected to grow 5 percent assuming continued revenue growth from rate increases granted during the past year and no increase in rates from new filings.

BEER TAX

Sections 16-1-406 through 408, MCA, levy taxes totaling $4.30 per 31-gallon barrel of beer. From the tax on each barrel, $1.80 is deposited in the general fund, $1.50 goes to incorporated cities and towns, and $1.00 is credited to the Department of Institutions for alcoholism programs. The 1985 legislature increased the tax rate 30¢ per barrel and specified that the additional tax would be deposited in the general fund. Table 24 shows general fund revenue from the beer tax since fiscal 1980.

Table 24
Historic and Projected General Fund Revenue from the Beer Tax
Fiscal Years 1980 through 1987

Fiscal Year	Revenue	Percent Change
1980	$1,216,504	1.2
1981	1,218,383	0.2
1982	1,229,888	0.9
1983	1,235,805	0.5
1984	1,204,236	(2.6)
1985	1,156,186	(4.0)
- Projected -		
1986	1,284,000	11.1
1987	1,227,000	(4.4)

Because the rate of the beer tax was not changed between fiscal years 1980 and 1985, the percent changes in tax revenue shown in table 24 for that time period reflect changes in barrels of beer taxed. The decline which began in fiscal 1984 has

continued through the first nine months of fiscal 1986. Based on year-to-date receipts and the historic collection pattern, fiscal 1986 general fund revenue from the beer tax is forecast to total $1,284,000; this revenue corresponds with a 5.9 percent decline in barrels taxed. (Revenue increases due to the 20 percent higher tax rate in fiscal 1986.) The downward trend in consumption is projected to continue at the same rate in fiscal 1987, yielding general fund revenue of $1,227,000.

The November ballot will include a constitutional amendment which would raise the legal drinking age to 21 effective January 1, 1987. If the amendment passes, beer consumption and taxes in fiscal 1987 would be expected to fall more than our forecast assumes.

NATURAL GAS SEVERANCE TAX

In accordance with Section 15-36-101, MCA, a severance tax of 2.65 percent of total gross value is levied on the production of natural gas in the state. Tax revenue on a year-to-year production increase within a county is paid to that county. The remainder of the tax is deposited in the general fund.

Since fiscal year 1980, natural gas severance tax collections by the general fund have increased as shown in table 25. Table 25 also shows forecasts for fiscal years 1986 and 1987.

Table 25
Historic and Projected Natural Gas Severance Tax
Fiscal Years 1980 through 1987

Fiscal Year	General Fund Revenue	Percent Change
1980	$1,264,024	---
1981	1,881,292	48.8
1982	2,474,811	31.5
1983	2,525,059	2.0
1984	2,797,996	10.8
1985	2,945,778	5.3
- Projected -		
1986	2,503,000	(15.0)
1987	2,332,000	(6.8)

Between fiscal 1980 and 1983, the money to pay counties with increased production was set aside from tax collections before the general fund deposit was made. In fiscal years 1984 and 1985, payments were made with a general fund appropriation, rather than withholding money from the general fund. The change in accounting procedures accounts for most of the growth in revenue between fiscal years 1983 and 1984. A change back to the original method of withholding estimated payments from revenue accounts for most of the decline in fiscal 1986.

Receipts from the natural gas tax depend on the levels of taxable production and price. In January 1985, the federal government removed controls on the price of most natural gas. The Montana average price of gas fell from $2.53 per thousand cubic feet (MCF) in the quarter ending December 1984 to $2.32 in the quarter ending March 1985. Since that time, price has changed little and averaged $2.38 for the two following quarters. Falling oil prices will add to the existing downward pressure on natural gas prices resulting from oversupply. The projected price for fiscal 1986 is based on actual prices this year and the assumption average price will fall 7.5 percent in the March 1986 quarter, consistent with the outlook of those in the industry.

Price is assumed to fall another 7.5 percent in fiscal 1987 to an average of $2.17 per MCF, very close to the current Canadian border price of $2.20 per MCF.

In a reversal of the recent trend, fiscal 1986 production is expected to increase 2.9 percent over the fiscal 1985 level, based on year-to-date data. Fiscal 1987 production is forecast to fall 2.0 percent due to declining crude oil production and declining demand by utility customers.

FREIGHT LINE COMPANY LICENSE TAX

Established by Section 15-55-102, MCA, the freight line company license tax is assessed at the rate of "5½ percent of the total gross earnings received from all sources by reason of the use or operation of such cars within this state." Since fiscal 1980, the freight line tax has yielded general fund revenue in the amounts shown in table 26. Table 26 also shows projections for fiscal years 1986 and 1987.

Table 26
Historic and Projected Freight Line Company License Tax Revenue
Fiscal Years 1980 through 1987

Fiscal Year	Collections	Percent Change
1980	$ 956,357	41.5
1981	1,200,093	25.4
1982	1,344,761	12.0
1983	1,432,164	6.5
1984	1,334,111	(6.8)
1985	1,379,418	3.4
Projected		
1986	1,195,000	(13.3)
1987	1,448,000	21.2

Fiscal 1986 revenue is forecast to be $1,195,000, the collections through the end of May. Since the tax is due March 1 for earnings during the preceding calendar year, all revenue should now be in the general fund. The decline from the fiscal 1985 level is probably attributable to the drought and resulting low levels of Montana

grain harvests and shipments. Bushels of grain shipped by rail from Montana fell 33 percent in June through November 1985 compared with the same period in 1984. Assuming the state's agricultural sector recovers in calendar year 1986, freight line taxes are projected to increase to $1,448,000, a growth of 5 percent over fiscal 1985 tax collections.

WINE TAX

According to Section 16-1-411, MCA, table wine sold in the state is taxed at the rate of 27 cents per liter. Sixteen cents of the tax is deposited in the general fund, while the remainder goes to the Department of Institutions and local governments. As shown in table 27, general fund collections of the wine tax fell between fiscal 1980 and 1982, then rose during the last three years, and are expected to increase in fiscal years 1986 and 1987.

Table 27
Historic and Projected General Fund Revenue from the Wine Tax
Fiscal Years 1980 through 1987

Fiscal Year	Collections	Percent Change
1980	$1,312,405	---
1981	931,611	(29.0)
1982	715,246	(23.2)
1983	895,718	25.2
1984	904,932	1.0
1985	905,648	0.1
- Projected -		
1986	959,000	5.9
1987	994,000	3.6

The wine tax is collected on both wine sold in state liquor stores and that sold by other retailers. Based on year-to-date experience, unit wine sales by state liquor stores are expected to decline 5.6 percent in fiscal 1986 and 4.0 percent in fiscal 1987. In contrast, unit sales by other retail distributors have increased annually

since fiscal 1982. The tax from distributors is forecast to grow 7.1 percent in fiscal 1986 in accordance with the trend for the first nine months of the year and to increase 4.2 percent in fiscal 1987, its average rate over the previous three years. Since 95 percent of retail wine sales are in non-state stores, the upward trend in private sector sales causes total wine tax collections to increase.

"OTHER" REVENUE CATEGORY

The "other" revenue category contains a large number of taxes, fees, and other types of revenue which individually yielded less than $2 million in general fund revenue since fiscal 1985. Table 28 shows actual collections of other revenue for fiscal years 1983 through 1985 and projections for fiscal years 1986 and 1987.

Table 28
Historic and Projected Other Revenue
Fiscal Years 1983 through 1987

Fiscal Year	Collections	Percent Change
1983	$11,176,072	---
1984	12,219,313	9.3
1985	13,432,000	9.9
- Projected -		
1986	17,804,000	32.5
1987	19,106,000	7.3

The growth between fiscal years 1985 and 1986 is largely the result of new revenue sources added by the 1985 legislature. Additional vehicle license fees used for district court funding are forecast to produce approximately $2.6 million of revenue each year. Another new revenue source, video poker licenses, is expected to add about $1.2 million to the general fund each year.

For categories which existed prior to this year, fiscal 1987 revenue was forecast with the assumption of modest growth over fiscal 1986 revenue which was, in turn, projected from year-to-date collections.

ANTICIPATED SUPPLEMENTALS FOR FISCAL 1987

The executive budget anticipates general fund supplementals totaling $7.4 million for fiscal 1987, excluding the supplemental for the foundation program. In addition to the executive supplementals presented, this office expects $13.4 million of supplemental requests for medicaid and the local government block grant. Table 1 shows the executive plus LFA estimates of supplemental appropriations.

Table 1
Executive plus LFA Estimates of Fiscal 1987 Supplementals

Agency	Program/Purpose	Amount - Executive	Amount - Total
Department of Justice	County Attorney Pay	$ 130,000	
	Forensic Lab	100,000	
Military Affairs	Armory Utility Cost	60,500	
Department of Health	AIDS	23,000	
	Planned Parenthood Suit	81,000	
Department of SRS	AFDC	2,833,019	
	Foster Care	1,105,883	
Dept. of State Lands	Fire Season (normal)	827,000	
Dept. of Institutions	Corrections Medical	525,000	
	Eastmont	56,350	
	Worker's Compensation	1,273,208	
	Litigation	327,428	
Office of Pub. Instr.	Foundation Suit	66,000	
Board of Public Education	Foundation Suit	15,000	
School/Deaf and Blind	I & I Reversion	20,000	
EXECUTIVE ESTIMATE OF FISCAL 1987 SUPPLEMENTALS			$ 7,443,388
Department of SRS	Medicaid		3,648,419
Department of Commerce	Local Block Grant		9,751,272
EXECUTIVE PLUS LFA ESTIMATE OF FISCAL 1987 SUPPLEMENTALS			$20,843,079

As table 1 indicates, the total supplemental estimate includes all the supplementals in the executive estimate plus appropriations for medicaid and the local government block grant. The medicaid and block grant supplementals are discussed briefly below and more thoroughly in the agency analysis.

Medicaid - Other Supplemental

For the 1987 biennium the legislative fiscal analyst's office is projecting a shortfall of $10.7 million for the medicaid-other program of which $3.6 million is general fund. As currently projected, fiscal 1986 medicaid-other expenditures will be approximately 22 percent or $9.5 million above the level spent in fiscal 1985. In large part, the increase appears to be attributable to increases in the AFDC caseload. Each AFDC recipient is also eligible for medicaid benefits with an average cost per AFDC case of approximately $3,500. Current projections by SRS indicate that the average monthly AFDC caseload for fiscal 1986 will be approximately 8,663 or 723 cases above the level used when establishing the medicaid appropriation. For fiscal 1987 the projected caseload is 9,408 or 1,325 above the level used to establish the medicaid appropriation. A more detailed explanation of the increased caseload and medicaid supplemental are provided in the legislative analyst's report under Supplemental Issue 2.

Local Government Block Grant Supplemental

For fiscal year 1987 the legislative fiscal analyst's (LFA) office is projecting a shortfall of $9,751,272 in the Department of Commerce, Local Government Block Grant Program. The Local Government Block Grant Program was created to reimburse local governmental units for lost revenue when the state switched from a property tax basis to a flat fee basis for registering autos and light trucks. For a detailed explanation of the LFA projected shortfall, please refer to Issue 6 in the Department of Commerce section of the LFA analysis.

In distributing the local government block grant appropriation for fiscal 1986, the department reimbursed counties at 100 percent of their revenue loss. The department interpreted the statutes related to the reimbursement as requiring them to reimburse at the 100 percent level. If the same interpretation is used in fiscal 1987, a supplemental would be needed to finance the projected $9,751,272 shortfall.

INFLATION FACTORS FOR AGENCY BUDGETS

In the budgeting process, operating expenditures for fiscal 1987 are estimated by inflating fiscal 1984 base costs by inflation factors which were developed for individual categories of operating expenses.

Table 1 lists the inflation factors generally used by the 1985 legislature to set agency budgets in House Bill 500 and those currently projected. Each factor is intended to capture three years of price increases or decreases.

Table 1
Cumulative Inflation Factors
Fiscal Years 1984 to 1987

Expenditure Category	Original Factor	Revised Factor	Inc.(Dec.) in Inflation
Computer Charges by Dept. of Admin.	0%	(4.0%)	(4.0%)
Rent Charges by Dept. of Admin.	(2.9%)	(6.1%)	(3.2%)
Petroleum Products	(2.2%)	(38.0%)	(35.8%)
Local Telephone Service & Equip.	27.1%	4.5%	(22.6%)
Long Distance Service	(7.8%)	0%	7.8%
Leased Line Service	66.5%	66.5%	0%
State Telephone System Usage	0%	0%	0%
Travel - Meals and Lodging	0%	0%	0%
Electricity	76.5%	58.8%	(17.7%)
Natural Gas	(8.0%)	(23.3%)	(15.3%)
Merchandise Purchased for Resale	0%	0%	0%
Other Operating Expenses	10.3%	10.3%	0%

As Table 1 shows, most currently projected inflation factors are lower than those used by the 1985 legislature. The downward adjustments reflect both lower actual inflation in fiscal 1985 and fiscal 1986 to date and reduced expectations for inflation during the remainder of the biennium.

If the original inflation factors were replaced by the revised factors, current fiscal 1987 appropriations could be reduced $2.98 million. Of this total, $2.10 million is general fund and $0.88 million is other funds. Because the reduction reflects only lower price levels, it involves no reduction in the services assumed by the 1985

legislature in making the original appropriations. The $2.98 million savings with the revised inflation factors was derived from the base costs used in setting the appropriations in House Bill 500 during the 1985 legislative session. If House Bill 500 is amended during the special session and base operating expenditures reduced, the inflation savings would be less than our estimate.

COMPARISON OF FULL-TIME EQUIVALENT (FTE) POSITIONS BY AGENCY

Agency	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	Difference Fiscal 1985 to Fiscal 1987
Administration	438.92	416.67	419.84	426.09	9.42
Agriculture	95.74	95.74	91.07	91.07	(4.67)
Art Council	4.00	4.00	4.00	4.50	0.50
Auditor State	59.00	59.00	60.50	59.50	0.50
Commerce	260.63	259.83	276.60	277.10	17.27
Deaf and Blind School	85.36	85.36	86.82	86.82	1.46
Fire Services Training	6.00	6.00	6.00	6.00	0.00
Fish, Wildlife and Parks	460.47	460.47	493.49	494.07	33.60
Governor's Office	57.50	57.50	64.08	62.90	5.40
Health and Environmental Sciences	224.85	224.18	241.00	241.25	17.07
Highways	1,930.36	1,971.85	2,005.50	1,985.75	13.90
Historical Society	44.00	44.00	52.50	52.50	8.50
Institutions	2,178.11	2,217.58	2,251.95	2,308.69	91.11
Justice	545.85	544.85	564.85	571.85	27.00
Labor and Industry	778.29	778.04	797.40	798.65	20.61
Lands	258.85	266.43	291.55	303.08	36.65
Legislative Agencies	136.07	148.00	131.50	146.50	(1.50)
Library Commission	25.50	25.50	25.50	25.50	0.00
Livestock	122.61	121.61	116.61	121.61	0.00
Military Affairs	80.00	80.00	91.00	91.00	11.00
Natural Resources and Conservation	253.16	252.79	257.29	257.79	5.00
Political Practices, Commission	5.00	5.00	4.75	4.75	(0.25)
Board of Public Education	2.00	2.00	2.00	2.00	0.00
Public Service Commission	46.00	49.00	46.00	46.00	(3.00)
Revenue	1,013.93	973.12	1,019.88	997.50	24.38
Secretary of State	30.00	30.00	35.00	31.50	1.50
Social and Rehabilitation Services	1,039.62	1,039.62	1,103.17	1,132.07	92.45
Superintendent of Public Instruction	136.10	136.10	134.10	134.10	(2.00)
Supreme Court	85.00	90.75	91.00	91.00	0.25
Vocational Educ. - Advisory Council	2.00	2.00	2.00	2.00	0.00
Budget Amendments	101.55	145.7			(145.7)
Subtotal	10,506.47	10,592.69	10,766.95	10,853.14	260.45
University System	3,509.04	3,531.66	3,576.48	3,574.10	42.44
Total	14,015.51	14,124.35	14,343.43	14,427.24	302.89

BUSINESS AND LABOR

PAY PLAN

Denying pay increases to these employees would impair the collective bargaining agreement which is a contract. Both the United States and Montana constitutions prohibit passing any law which impairs the obligation of contracts. Impairment of a contract may be constitutional when an emergency justifies action impairing the contract temporarily to protect the basic interest of society. Whether Montana's current budget problems could provide justification for impairing collective bargaining agreements by freezing employee compensation is unclear.

Second, while the legislature may alter statutes to freeze the salaries of employees not covered by collective bargaining agreements, the law must be changed prior to performance of services for which the salary is paid. Otherwise, the employees' right to the original salary would be vested, creating a contractual obligation on the part of the state to pay that salary for any period already worked since the beginning of the first pay period in fiscal 1987. Freezing the pay of those employees not covered by collective bargaining agreements would have to be done before July 1, 1986 to be accomplished prospectively and avoid impairing a contractual obligation. If the pay freeze were enacted July 10, for example, employees would have a vested right to the fiscal 1987 salaries currently in statutes for hours worked between the beginning of the pay period and July 10.

The power to appropriate state funds is clearly reserved for the legislature. If the legislature chooses to reduce the pay plan appropriation by the $12.5 million which could be saved with a freeze but not enact legislation to freeze salaries at fiscal 1986 levels, state government employment would have to be reduced by approximately 500 FTE to effect the cost savings. This reduction was calculated based on the average personal service costs per FTE statewide. The actual FTE reduction necessary to save $12.5 million would depend on the actual salary levels of the vacant positions.

EDUCATION AND CULTURAL RESOURCES

SCHOOL FOUNDATION

PUBLIC SCHOOL FOUNDATION PROGRAM

The Public School Foundation Program is funded by county equalization aid, state equalization aid, and general fund revenues. The major source of revenue for county equalization is the property tax levy of 45 mills statewide. Forest and grazing funds and miscellaneous revenues also contribute to county equalization. State equalization comes from six dedicated, non-general fund sources. General fund is added to the Public School Foundation Program to the extent that county and state equalization aid does not cover the formula-driven costs of the foundation program.

Enrollment

Total budgeted expenditures for the foundation and permissive program are dependent upon enrollment fluctuations and the legislatively-approved, cost-per-student schedule increase. The 1985 legislature anticipated a .8 percent enrollment increase from fiscal 1986 to fiscal 1987 when it set the fiscal 1987 appropriation. Instead, enrollment is now expected to decrease .55 percent from fiscal years 1986 to 1987. Recent OPI enrollment projections indicate that fiscal 1987 enrollment will be 1.63 percent less than the level used to estimate the fiscal 1987 appropriation. Adjusting the fiscal 1987 appropriation for the anticipated decrease in enrollment reduces the expenditure base by $4.75 million. Our revised biennial cost estimate for the foundation program is $574.16 million. Table 1 details enrollment changes.

Table 1
Public School Enrollment (ANB)
Fiscal Years 1984 - 1987

Fiscal Year	Elementary	Secondary	Total	% Change
1984	104,152	46,533	150,705	---
1985	104,795	46,451	151,246	.36
1986	105,078	46,479	151,557	.21
- Projected -				
1987	104,010	46,717	150,727	(.55)

Table 2 shows the Legislative Fiscal Analyst estimates for revenues and expenditures in the Public School Foundation Program. The revenue and expenditure estimates are based upon current law and a 4 percent increase in the public school funding schedule in fiscal 1987. Total expenditures for the foundation and permissive program have been reduced to reflect the most recent fiscal 1987 enrollment estimates.

Table 2
Estimates of Public School Funding
1987 Biennium
(Millions)

State Equalization	Fiscal 1986	Fiscal 1987	1987 Biennium
25 Percent Individual Income Tax	$ 43.030	$ 45.378	$ 88.408
25 Percent Corporate License Tax	13.082	10.690	23.772
Coal Severance Tax	4.209	3.665	7.874
Interest and Income	53.643	37.755	91.398
U.S. Mineral Royalties (62.5%)	12.716	13.191	25.907
Education Trust Interest (67.5%)	7.355	7.459	14.814
House Bill 949	0.750	0.000	0.750
Total State Equalization	$134.785	$118.138	$252.923
County Equalization			
45 Mill Levy	$106.656	$102.731	$209.387
Miscellaneous	8.923	8.923	17.846
Forest Funds	1.391	1.391	2.782
Grazing Funds	0.118	0.120	0.238
Elementary Transportation	(3.627)	(3.680)	(7.307)
High School Tuition	(0.761)	(0.761)	(1.522)
Total County Equalization	$112.700	$108.724	$221.424
District Permissive Levies	$ 18.251	$ 18.935	$ 37.186
TOTAL NON-GENERAL FUND	$265.736	$245.797	$511.533
Less: Formula-Driven Costs	281.970	292.190	574.160
General Fund Required	$ 16.234	$ 46.393	$ 62.627
General Fund Available	32.560	16.326	32.560
GENERAL FUND SUPPLEMENTAL FY87		$(30.067)	$(30.067)

State Equalization

The Public School Foundation Program receives funding from individual income, corporate license, and coal severance taxes. The basis for these revenue estimates is discussed in the General Fund Revenue section of this book.

The common school interest and income account receives revenues from agricultural, grazing, and oil and gas leases on state lands. The state receives one-fourth of the crop value from its agricultural leases. Revenues in fiscal 1986, on the 1985 crop, were down by 50 percent, or $3 million, from fiscal 1985. The fiscal 1987 estimate for revenues from agricultural leases anticipates greater revenues based on a more normal production year in 1986. Revenues from grazing leases are projected to remain stable at $3 million in fiscal 1987. Revenues from oil and gas leases are projected to decline in fiscal 1987 based upon an anticipated 47 percent decrease in the value of Montana oil production.

A second revenue source for the common school interest and income account is the interest earnings on the common school trust. Royalties on coal, oil, and natural gas production and revenues from timber sales are deposited to the common school trust. The fiscal 1986 year-end balance in the trust is estimated to be $177.6 million (excluding land values of $45 million). Interest earnings for fiscal 1987 are projected to be $21.4 million, of which the common school interest and income account will receive 95 percent. Five percent of the interest earnings will be re-invested in the trust.

The state of Montana receives one-half of the rents and royalties paid on federal mineral leases. Of the state's total receipts, the Public School Foundation Program receives 62.5 percent. These revenues to the state are directly related to the value of oil, gas, and coal production. The value of production in all three of these areas has declined in fiscal 1986 and is expected to continue to decline in fiscal 1987. However, two of Montana's largest federal coal leases will be renewed in mid-1986 at a 12.5 percent royalty rate. The former royalty rate on these leases was $.20/ton.

The increased royalty payments on coal production will be enough to cause a 3.7 percent increase in U.S. mineral royalties in fiscal 1987 over fiscal 1986.

The Public School Foundation Program receives 67.5 percent of the interest earnings from the education trust fund. The level of earnings on the trust is determined by the coal severance tax deposit to the trust and the interest rate on investments, both of which are projected to decline in fiscal 1987. The average yield on the education trust fund is declining in the 1987 biennium as new investments are made at lower interest rates. However, the decline in the average yield of the education trust fund has been offset by profits earned from a high level of bond sales in fiscal 1986, a trend which is expected to continue in fiscal 1987. The balance in the education trust fund is estimated to be $78.9 million as of fiscal 1986 year-end. The level of interest earnings is estimated to be $11.05 million in fiscal 1987, of which the Public School Foundation Program will receive $7.46 million.

County Equalization

County equalization aid is estimated to decrease by 3.7 percent from fiscal 1986 to fiscal 1987. The source of decline is the net and gross proceeds portion of the property tax base. Property taxes on oil, coal, natural gas, and metal produced in calendar 1985 are paid in fiscal 1987. Therefore, the decline in the property tax base between fiscal years 1986 and 1987 reflects a decline in the value of oil, coal, natural gas, and metal production from calendar 1984 to 1985. The taxable value of net and gross proceeds is estimated to fall by $102.46 million, or 13.3 percent, from fiscal 1986 to fiscal 1987. Growth in other property tax classes is estimated to add $15.23 million to statewide taxable value in fiscal 1987. Therefore, the overall decline is estimated to be $87.225 million. Public school foundation revenues from the 45 mill levy will decrease by $3.9 million as a result.

Comparison of Executive and LFA Estimate

Table 3 compares the executive and the LFA estimates for revenues and expenditures in the Public School Foundation Program in the 1987 biennium. These estimates are based on current law and a 4 percent increase in the public school funding schedule in fiscal 1987. The impact of the executive proposal to retain the fiscal 1986 public school funding schedule in fiscal 1987 and to appropriate all U.S. mineral royalties to the Public School Foundation Program are shown as issues in the table, using LFA estimates. Also presented is an LFA option to allocate all U.S. mineral royalties to the general fund in both years of the 1987 biennium.

Table 3
Comparison of Executive and LFA Estimates for Public School Funding
1987 Biennium
(Millions)

State Equalization	Executive Estimate	LFA Estimate	Difference
25 Percent Individual Income Tax	$ 89.710	$ 88.408	$(1.302)
25 Percent Corporate License Tax	25.128	23.772	(1.356)
Coal Severance Tax	7.731	7.874	0.143
Interest and Income	94.847	91.398	(3.449)
U.S. Mineral Royalties (62.5%)	23.665	25.907	2.242
Education Trust Interest (67.5%)	15.085	14.814	0.271
House Bill 949	0.750	0.750	0.00
Total State Equalization	$256.916	$252.923	$(3.993)
County Equalization			
45 Mill Levy	$211.324	$209.387	$(1.937)
Miscellaneous	17.590	17.846	0.256
Forest Funds	2.782	2.782	0.000
Grazing Funds	0.236	0.238	0.002
Elementary Transportation	(7.254)	(7.307)	(0.053)
High School Tuition	(1.522)	(1.522)	0.00
Total County Equalization	$223.156	$221.424	$(1.732)
District Permissive Levies	37.028	37.186	0.158
TOTAL NON-GENERAL FUND	$517.100	$511.533	$(5.567)
Less: Formula-Driven Costs	$573.920	$574.160	$ 0.240
General Fund Required	56.820	62.627	5.807
General Fund Available	32.560	32.560	0.000
GENERAL FUND SUPPLEMENTAL FY87	$(24.260)	$(30.067)	$(5.807)

ISSUES - Fiscal 1987 - - - - -

	General Fund	Other Funds
1. Maintain Funding at Fiscal 1986 Schedule	$11.24	-0-
2. Transfer U.S. Mineral Royalties		
Option A: Fiscal 1987 Revenue	$ 7.9	$ (7.9)
Option B: 1987 Biennium Revenues	$15.5	$(15.5)

ISSUE GOV. 1: MAINTAIN FUNDING AT FISCAL 1986 SCHEDULE

The Governor has proposed maintaining the fiscal 1986 cost schedules rather than implementing the 4 percent increase approved by the 1985 legislature. This would reduce the formula-driven costs shown in table 3 by $11.24 million and would generate a concurrent reduction in the general fund required. The Governor has also suggested that school districts could absorb the revenue loss, with no adverse effect on services, by drawing upon their general fund reserves.

The Office of Public Instruction has provided information which shows 21 school districts have a general fund reserve which is less than 4 percent of its foundation and permissive budget in fiscal 1986. Also shown is the dollar amount of each school's reserve and the percent of foundation and permissive budget each district's reserve represents in fiscal 1986.

Table 4
School Districts with General Fund Reserves Less Than 4 Percent
Fiscal 1986

School Name	GF Reserve	% of FP
Plenty Coups High School	$ -0-	0.0
North Harlem Colony Elementary	664	2.2
Toston Elementary	-0-	0.0
Swan River Elementary	-0-	0.0
Flathead High School	-0-	0.0
Helena Flats Elementary	-0-	0.0
Kila Elementary	1,374	.6
Whitefish High School	-0-	0.0
West Valley Elementary	1,255	.3
Manhattan Elementary	-0-	0.0
Manhattan High School	2,971	.5
Bozeman High School	55,272	1.2
Anderson Elementary	4,320	2.8
West Yellowstone Elementary	10,970	2.1
Seville Elementary	-0-	0.0
Boulder Elementary	14,745	2.4
Hobson High School	7,950	2.2
Butte Elementary	217,218	1.7
Butte High School	79,699	1.1
Judith Gap Elementary	-0-	0.0
Shepherd High School	13,121	1.8

Source: Office of Public Instruction

The table below shows the reduction to the formula-driven cost in Table 3 using various levels of schedule decreases in fiscal 1987.

Table 5
Cost Saving of Resulting from Various Levels of Schedule Decreases
Fiscal 1987

Schedule Decrease Fiscal 1987	Amount Saved from Formula Driven Costs-Table 3
4%	$11,240,000
3%	8,510,000
2%	5,730,000
1%	2,890,000
0%	-0-

Option A: Reduce the fiscal 1987 schedules 4 percent. This would result in a one-time $11.24 million general fund reduction.

Option B: Reduce the fiscal 1987 schedules 3 percent. This would result in a one-time $8.51 million general fund reduction.

Option C: Reduce the fiscal 1987 schedules 2 percent. This would result in a one-time $5.73 million general fund reduction.

Option D: Reduce the fiscal 1987 schedules 1 percent. This would result in a one-time $2.89 million general fund reduction.

Option E: Take no action.

ISSUE GOV. 2: DEPOSIT 100 PERCENT OF U.S. MINERAL ROYALTIES TO THE PUBLIC SCHOOL FOUNDATION PROGRAM

The executive budget proposes that all of the U.S. mineral royalties, which the state receives on federal mineral leases, be deposited to the Public School Foundation Program. This option is available to the legislature and does fit within the restrictions of the federal law which appropriates federal mineral royalties to the state. Under current state law, these revenues are allocated 62.5 percent to the Public School Foundation Program and 37.5 percent to the highway reconstruction trust. If

all of these revenues were allocated to the Public School Foundation Program in fiscal 1987, the program would gain $7.9 million.

An option raised by the LFA is to divert U.S. mineral royalties from the highway reconstruction trust in both years of the 1987 biennium. The highway reconstruction trust is projected to receive $15.5 million from U.S. mineral royalties in the 1987 biennium.

Option A: Transfer the fiscal 1987 federal mineral royalties to the school foundation program for a general fund savings of $7.9 million.

Option B: Transfer the 1987 biennium federal mineral royalties to the school foundation program for a general fund savings of $15.5 million.

Option C: Take no action.

LEGISLATIVE, JUDICIAL & ADMINISTRATIVE

Governor's Issues	General Fund % Cut	Fiscal 1987 General Fund	Fiscal 1987 Other Funds	Fiscal 1987 Total
Across the Board Cuts				
Legislative Auditor	5.0	$ 54,542	$ 47,104	$ 101,646
Legislative Fiscal Analyst	5.0	37,480	-0-	37,480
Legislative Council	5.0	109,767	-0-	109,767
Environmental Quality Council	5.6	12,926	1,310	14,236
Consumer Counsel	0.0	-0-	44,879	44,879
Judiciary	1.1	46,600	56,093	102,693
Governor's Office	5.0	113,074	-0-	113,074
Secretary of State	5.0	44,544	16,170	60,714
Commissioner of Political Practices	5.0	6,988	50	7,038
State Auditor	5.0	54,562	66,469	121,031
Crime Control	5.0	24,304	-0-	24,304
Highway Traffic Safety	0.0	-0-	3,535	3,535
Department of Justice	5.3	285,485	685,324	970,809
Department of Highways	0.0	-0-	7,622,585	7,622,585
Department of Revenue	4.8	850,125	78,330	928,455
Department of Administration	5.0	192,463	1,206,062	1,398,525
Public Employees Retirement	0.0	-0-	-0-	-0-
Teachers Retirement	0.0	-0-	-0-	-0-
Military Affairs	5.0	93,588	-0-	93,588
Total Across the Board Cuts	4.6	$1,926,448	$ 9,827,911	$11,754,359
Coal Tax Lobby		$ 64,637	$ -0-	$ 64,637
Delay Criminal Investigation Program		408,959	-0-	408,959
Funding Switch - Highway Patrol		3,082,747	(3,082,747)	-0-
Funding Switch - County Attorneys		610,312	(610,312)	-0-
Total Policy Cuts		$4,166,655	$(3,693,059)	$ 473,596
TOTAL GOVERNOR'S CUTS		$6,093,103	$ 6,134,852	$12,227,955
LFA Policy Options				
Judiciary				
1. Inflation on Books		$ 18,779	$ -0-	$ 18,779
2. Eliminate Montana Reports		22,333	-0-	22,333
Governor's Office - Coal Tax Advisory Council		14,000	-0-	14,000
Secretary of State - Records Management		21,983	-0-	21,983
State Auditor				
1. Funding Switch Central Payroll		314,101	(314,101)	-0-
2. Personal Services		56,755	-0-	56,755
3. Office Automation		100,000	-0-	100,000

CONTINUED

LFA Policy Options	General Fund	Other Funds	Total
Board of Crime Control			
1. Juvenile Justice Training	$ 48,588	$ -0-	$ 48,588
2. Uniform Crime Reporting System	65,000	-0-	65,000
Department of Justice			
1. Vehicle Purchases	250,000	-0-	250,000
2. Narcotics and Stolen Property	408,959	-0-	408,959
3. Indian Legal Jurisdiction	118,551	-0-	118,551
4. Funding Switch-Highway Patrol	3,113,688	(3,113,688)	-0-
5. Funding Switch-County Attorney	610,312	(610,312)	-0-
Department of Revenue			
1. County Assessor Salaries	1,861,000	-0-	1,861,000
2. Travel	50,000	-0-	50,000
3. Operating Expense	135,278	-0-	135,278
Department of Administration			
1. Funding Switch-Indirect Costs	387,841	(387,841)	-0-
2. GAAP Reporting	60,930	(60,930)	-0-
Military Affairs			
1. Veterans Affairs	466,674	-0-	466,674
2. Contract Services	9,958	-0-	9,958
TOTAL LFA OPTIONS	$ 8,134,730	$(4,486,872)	$ 3,647,858
COMBINED GOVERNOR'S CUTS AND LFA OPTIONS	$14,227,833	$ 1,647,980	$15,875,813
LESS: Duplicated Cuts	$ 4,381,158	$(3,693,059)	$ 688,099
TOTAL UNDUPLICATED REDUCTION OPTIONS	$ 9,846,675	$ 5,341,039	$15,187,714

Table 1 shows the duplicated cuts.

Table 1
General Fund Duplication Between Governor's Cuts and LFA Options

Issue/Agency	Gov. Cut	LFA Option	Duplication
1. Coal Tax Lobby - Gov. Office	$ 64,637	$ 14,000	$ 14,000
2. Personal Services - State Auditor	25,740	56,755	25,740
3. Criminal Investigation - Justice	408,959	408,959	408,959
4. Funding Switch - Highway Patrol	3,082,747	3,113,688	3,082,747
5. Funding Switch - County Attorney	610,312	610,312	610,312
6. County Assessor Salaries	214,400	1,861,000	214,400
7. Travel - Dept. of Revenue	25,000	50,000	25,000
Total	$4,431,795	$6,114,714	$4,381,158

Governor's Across The Board Cut	Percent Cut	Fiscal 1987 General Fund	Other Funds	Total
Legislative Auditor	5.0	$ 54,542	$47,104	$101,646
Legislative Fiscal Analyst	5.0	37,480	-0-	37,480
Legislative Council	5.0	109,767	-0-	109,767
Environmental Quality Council	5.5	12,926	1,310	14,236
Consumer Council	5.0	-0-	44,879	44,879
Total Across the Board Cuts		$214,715	$93,293	$308,008

GOVERNOR'S POLICY ISSUES	Fiscal 1987 General Fund	Other Funds
Legislative Council Montana Code Annotated Account Cash Transfer to the General Fund	$500,000	$(500,000)

LEGISLATIVE AUDITOR

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	65.0	65.0	60.0	60.0	(5.0)
Personal Service	$1,529,726	$1,716,644	$1,637,716	$1,704,196	(.7)
Operating Expense	322,578	335,757	379,430	397,514	18.4
Equipment	30,318	3,669	9,394	18,550	405.6
Total Expenditures	$1,882,622	$2,056,070	$2,026,540	$2,120,260	3.1
Fund Source					
General Fund	$1,085,455	$1,318,579	$1,125,538	$1,178,171	(10.6)
State Special	797,167	737,491	901,002	942,089	27.7
Total Funds	$1,882,622	$2,056,070	$2,026,540	$2,120,260	3.1

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. 5 Percent Reduction	-0-	-0-

The Office of the Legislative Auditor is responsible for auditing the financial affairs and transactions of all state agencies. Section 5-13-304, MCA, states that the Legislative Auditor shall:

(1) conduct a financial and compliance audit of every state agency every two years covering the two-year period since the last audit, unless otherwise required by state law;

(2) conduct a special audit whenever he determines it necessary and shall so advise the members of the legislative audit committee;

(3) make a complete written report of each audit. A copy of each report shall be furnished to the Department of Administration, that state agency which was audited, each member of the committee, and the legislative council;

(4) report immediately in writing to the Attorney General and the Governor any apparent violation of penal statutes disclosed by the audit of a state agency and furnish the Attorney General with all information in his possession relative to the violation;

(5) report immediately in writing to the Governor any instances of misfeasance, malfeasance, or nonfeasance by a state officer or employee disclosed by the audit of a state agency;

(6) report immediately to the surety upon the bond of an official or employee when an audit discloses a shortage in the accounts of the official or employee. Failure to notify the surety does not release the surety from any obligation under the bond;

(7) report to the legislature during the first week of each regular session. The report shall contain, among other things, copies of or summaries of audit reports on state agencies and any recommendations relating to such reports;

(8) have the authority to audit records of organizations and individuals receiving grants from or on behalf of the state to determine that the grants are administered in accordance with the grant terms and conditions. Whenever a state agency enters into an agreement to grant resources under its control to others, the agency must obtain the written consent of the grantee to the audit provided for in this subsection.

Between fiscal 1985 and 1987, the auditor's budget increased 3.1 percent. The general fund decreases by 10.6 percent and the state special revenue fund increases by 27.7 percent. The major reason for the decrease in the general fund and the increase in state special revenue fund is that the legislature reallocated $73,750 of general fund for the state-wide audit to the state special revenue fund and reallocated $130,848 of costs from the general fund to the state special revenue fund to use up a fund balance in the state special revenue fund.

FTE decrease by 5.0 from the fiscal 1985 level. However, personal service expenditures decrease only slightly because vacancy savings in fiscal 1985 totaled $264,594, which was 13.4 percent, or an average of 8.7 FTE, of the budgeted personal services.

The agency is functionally divided into three areas: Financial/Compliance Auditing, Performance Auditing, and Administration. The Financial/Compliance Audit group conducts the regular biennial audits of all state agencies and the state-wide annual financial audit. The Performance Audit group conducts performance audits of selected programs and assists the Financial/Compliance Audit group in evaluations of data processing controls as part of the regular audits.

Table 1 shows the authorized FTE by function for fiscal 1987.

Table 1
Office of the Legislative Auditor
FTE by Function for Fiscal 1987

Function	FTE
Financial Compliance	36
EDP Audit	3
Performance	12
Administration	8
Legislators Committee Members	1
Total F.T.E.	60

The Office of the Legislative Auditor is establishing an operational plan for each function, but they were not finished in time for the plans to be included in this report.

ISSUE 1: 5 PERCENT REDUCTION

At the May, 1986 Legislative Audit Committee meeting, the committee voted to take no reductions in the fiscal 1987 appropriation.

LEGISLATIVE FISCAL ANALYST

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	15.0	15.5	17.5	18.0	2.5
Personal Service	$407,646	$467,742	$566,102	$616,471	31.8
Operating Expense	101,217	157,625	173,262	159,701	1.3
Equipment	37,290	571	35,140	2,750	381.6
Total Expenditures	$546,153	$625,938	$774,504	$778,922	24.4
Fund Source					
General Fund	$546,153	$625,938	$776,504	$778,922	24.4
Total Funds	$546,153	$625,938	$774,504	$778,922	24.4

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. 5 Percent Reduction	$(37,924)	-0-

The Office of the Legislative Fiscal Analyst (LFA) provides concentrated fiscal analysis of state government, and accumulates, compiles, analyzes and furnishes such information that might bear upon financial matters of the state and that might be relevant to issues of policy and questions of state-wide importance to legislators. The major functions of the LFA staff are conducting analyses of budget requests and agency operations to provide the legislature with an independent analysis of the executive budget, preparing revenue estimates, and monitoring the executive branch's execution of legislative intent. The Legislative Fiscal Analyst is guided by the Legislative Finance Committee.

Personal services increase $148,729, or 31.8 percent. The legislature increased the staff by 2.0 FTE staff analysts and a .50 FTE secretary to be used for existing workload in an attempt to reduce staff overtime.

ISSUE 1: 5 PERCENT REDUCTION

In response to the Governor's request for a 2 percent reduction, the legislative fiscal analyst reduced the fiscal 1986 appropriation by $15,806. Personal services were reduced by $14,077, data processing by $1,129, and consultants by $600.

The Governor has requested each agency to submit a 5 percent budget reduction for fiscal 1987. A 5 percent reduction of the legislative fiscal analyst budget would be $37,924. The legislative fiscal analyst will present the following reductions to the Legislative Finance Committee:

1. Personal Services - Vacancy savings and reduced secretarial overtime will save $9,200.

2. Contract Services - The $30,000 biennium appropriation for consultants and legal assistance will be reduced, saving $11,000.

3. Travel - Staff travel will be reduced, saving $2,724.

4. Rent - Rent for data processing terminals will not be needed, as the personal computers will be able to access the state computer, saving $11,000.

5. Repairs - Maintenance contracts on the two word processors will be dropped, saving $4,000.

LEGISLATIVE COUNCIL

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	45.57	57.0	43.5	58.0	1.0
Personal Service	$1,044,017	$1,247,748	$1,280,814	$1,577,195	26.4
Operating Expense	944,183	628,185	1,527,566	637,885	1.5
Equipment	93,370	221,599	35,776	28,193	(87.3)
Total Expenditures	$2,081,570	$2,097,532	$2,844,156	$2,243,273	7.0
Fund Source					
General Fund	$1,546,639	$1,863,413	$1,863,156	$2,243,273	20.4
State Special	534,931	234,119	981,000	-0-	----
Total Funds	$2,081,570	$2,097,532	$2,844,156	$2,243,273	7.0

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. 5 Percent Reduction	$(114,445)	-0-
General Fund Revenue Transfer		
2. Montana Codes Annotated	$500,000	$(500,000)

Title 5, Chapters 5 and 11, MCA, establish and govern the Legislative Council. The council staff is responsible for providing research, bill drafting, and legal services to the legislature and its interim committees. The staff is also responsible for printing and distributing bills, preparing House and Senate Journals and Session Laws for publicatior, and recodifying and indexing Montana statutes. The staff is supervised by the Legislative Council, which is made up of eight members. Staff of the council is functionally grouped into four divisions: Research. Legislative Services, Management, and Legal Services.

Between actual fiscal 1985 and appropriated fiscal 1987, FTF increases by 1.0 FTE consisting of a .50 FTF assistant librarian and a .50 FTE indexer. General fund increases $379,860, or 20.4 percent. This increase is due to a personal services

increase of $329,447. Personal services increase because of the fiscal 1987 pay plan of $76,936 and vacancy savings in fiscal 1985 of $241,100. Equipment purchases decrease due to a one-time purchase of printing equipment of $194,630 in the Montana Codes Annotated program.

The state special revenue fund is the Montana Codes Annotated program of $967,000 in fiscal 1986 and $12,000 for the coal tax subcommittee. Both are biennial appropriations.

ISSUE 1: 5 PERCENT REDUCTION

In response to the Governor's request for a 5 percent reduction in the 1987 appropriation, the Legislative Council has voted to reduce the general fund by $114,445. The interim studies appropriation was reduced by $24,000. Council operations were reduced as follows: (1) equipment, $15,000; (2) travel, $15,000; (3) registration fees, $8,000; and (4) computer costs, $52,445.

ISSUE 2: GENERAL FUND REVENUE TRANSFER

The Montana Codes Annotated program pays for the costs directly related to the printing and distribution of the codes annotation and annotation supplements. Costs are funded by revenues generated from sale of the publications. As of the end of April 1986, there was a cash balance in the Montana Codes Annotated account of $978,564. Table 1 shows the anticipated cash flow in the account for the balance of the 1987 biennium.

Table 1
Anticipated Balance in Montana Codes Annotated Program
As of 6/30/87

Balance 4/30/86	$ 978,564
Revenues	36,970
Total Available	$1,015,534
Anticipated Expenditures	238,613
Balance 6/30/87	$ 776,921

The Montana Codes Annotated account was originally started with seed funds of $426,151 from the general fund. Over the past four years, the account has become self sufficient with revenues exceeding expenditures. The Legislative Council has indicated it is willing to transfer $500,000 of the anticipated balance to the general fund.

Option A: Transfer $500,000 of the balance in the MCA account to the general fund.

Option B: Take no action.

ENVIRONMENTAL QUALITY COUNCIL

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	6.25	6.25	6.25	6.25	0.00
Personal Service	$140,468	$143,459	$170,923	$176,761	23.2
Operating Expense	62,556	66,165	85,515	64,028	(3.2)
Equipment	11,776	61	-0-	-0-	-0-
Total Expenditures	$214,800	$209,685	$256,438	$240,729	14.8
Fund Source					
General Fund	$214,800	$209,685	$230,238	$240,729	14.8
State Special	-0-	-0-	26,200	-0-	---
Total Funds	$214,800	$209,685	$256,438	$240,729	14.8

ISSUES - Fiscal 1987	General Fund	Other Funds
1. 5 Percent Reduction	$(11,747)	-0-

The Environmental Quality Council functions as an arm of the legislature, with the role of anticipating and analyzing the causes of environmental problems and recommending solutions to those problems. The council is to ensure that state environmental policy is consistently observed by all state agencies that are concerned with environmental matters. The legislature assigns interim studies relating to natural resources and economic development to the council, and the council staffs the House and Senate Natural Resources Committees during legislative sessions.

Personal services increase by 23.2 percent due to an experienced vacancy savings of $20,600 in fiscal 1985 and pay plan of $8,402 in fiscal 1987.

The state special revenue fund of $26,200 in fiscal 1986 is a biennial appropriaton to fund the water marketing committee.

ISSUE 1: 5 PERCENT REDUCTION

In response to the Governor's request for a 2 percent reduction in general fund appropriations, the Environmental Quality Council Committee reduced the 1986 budget by $4,474.

The Environmental Quality Council Committee has requested that the Environmental Quality Council staff present a plan for a 5 percent reduction at its next meeting. As the 5 percent reduction plan has not been approved by the committee, it is not shown here. However, for information purposes and in accordance with preliminary discussion by the committee, the amount of the 5 percent cut, $11,747 without fiscal 1987 pay raises, is shown.

CONSUMER COUNSEL

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	4.25	4.25	4.25	4.25	0.00
Personal Service	$151,845	$164,173	$178,354	$192,134	17.0
Operating Expense	481,949	429,198	683,422	704,436	64.1
Equipment	3,019	458	20,000	1,000	118.3
Total Expenditures	$636,813	$593,829	$881,776	$897,570	51.2
Fund Source					
State Special	$636,813	$593,829	$881,776	$897,570	51.2

ISSUES - Fiscal 1987	General Fund	Other Funds
1. 5 Percent Reduction	-0-	$(35,272)

The Consumer Counsel is charged with the "duty of representing consumer interest in hearings before the Public Service Commission or any other successor agency." The Consumer Counsel also may initiate, intervene in, or otherwise participate in appropriate proceedings in the state and federal courts and in administrative agencies on behalf of the public of Montana.

Personal services increased $27,961, or 17.0 percent. The reasons for the increase are: 1) the agency had vacancy savings of $9,834 in fiscal 1985, and 2) the pay plan added $13,780 in fiscal 1987.

Operating expenses increase by $275,238, or 64.1 percent. Contract services increase $262,000 for consulting and professional services. The increase was granted based on the agency's estimate of possible costs for rate hearings in regards to the AT&T breakup.

Funding for the Consumer Counsel is provided by a consumer counsel tax on all regulated entities under the Public Service Commission's jurisdiction.

ISSUE 1: 5 PERCENT REDUCTION

In response to the Governor's request for a 5 percent reduction in the fiscal 1987 appropriation, the Consumer Counsel has voted to reduce the fiscal 1987 appropriation by $35,272. The 5 percent reduction has no effect on the general fund.

JUDICIARY

Budget Items	Fiscal 1987 House Bill 500	Fiscal 1987 Governor's Budget	Difference
F.T.E.	91.0	91.0	0.00
Personal Service	$3,528,273	$3,498,273	$ 30,000
Operating Expense	1,032,235	959,542	72,693
Equipment	218,878	218,878	-0-
Total Expenditures	$4,779,386	$4,676,693	$102,693
General Fund	$4,159,488	$4,112,888	$46,600
State Special	619,898	563,805	56,093
Total Funding	$4,779,386	$4,676,693	$102,693

ISSUES IN GOVERNOR'S BUDGET	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
Gov. 1. 5 Percent Cut	$(46,600)	$(56,093)

ISSUE GOV. 1: 5 PERCENT CUT

The executive budget recommends a reduction of $102,693 from the judiciary budget. If the Governor had taken a 5 percent cut, the general fund reduction would be $207,974 and the other funds reduction would be $30,994.

The 1 percent general fund reduction consists of a $16,600 cut for dues to the National Center for Courts and a $30,000 cut by leaving 1.0 FTE financial budget officer position vacant.

The 10 percent reduction in other funds consists of $28,637 for contract services in the Water Courts for court reporting services and a $27,456 reduction in the Law Library for Westlaw.

JUDICIARY

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	85.00	90.75	91.00	91.00	.25
Personal Service	$3,035,705	$3,348,094	$3,606,487	$3,656,234	9.2
Operating Expense	685,833	730,564	994,944	1,032,235	41.3
Equipment	262,814	270,327	251,437	218,878	(19.0)
Total Operating Costs	$3,984,352	$4,348,985	$4,852,868	$4,907,347	12.8
Non-Operating Costs	96,855	98,933	-0-	-0-	---
Total Expenditures	$4,081,207	$4,447,918	$4,852,868	$4,907,347	10.3
Fund Source					
General Fund	$3,833,793	$4,069,972	$4,242,287	$4,271,822	5.0
State Special	247,414	377,946	610,581	635,525	68.2
Total Funds	$4,081,207	$4,447,918	$4,852,868	$4,907,347	10.3

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. Inflation on Books	$(18,779)	-0-
2. Eliminate Montana Reports		
Option A.	$(22,333)	-0-
Option B.	$(10,483)	-0-

The judicial branch of state government is provided for in Article III, Section I and Article VII of the 1972 Montana Constitution. In Section II of Article VII, the jurisdiction of the supreme court is defined. That jurisdiction consists of all appellate jurisdiction and original jurisdiction in petitions for writs of habeas corpus and other such writs, general supervisory control over all courts, and rule making powers of Montana's courts.

The major reason for the increase in personal services and operating expenses is due to the Water Courts Program. Expenditures for the Water Courts Program totaled $364,103 in fiscal 1985, compared with an appropriation of $563,260 in fiscal

1987 fiscal, a 55 percent increase. The non-operating costs shown in fiscal years 1984 and 1985 were payments to the University of Montana for MONTCLIRC. MONTCLIRC is a legal research service provided by the law school at the University of Montana for judges, prosecutors, public defenders, and other publicly paid members of the criminal justice system in Montana. The funding was transferred to the University of Montana for the 1987 biennium. Excluding the Water Courts and MONTCLIRC Programs, the total Judiciary budget increases by 7.7 percent from actual fiscal 1985 to appropriated fiscal 1987.

The state special revenue fund increases $257,579, or 68.2 percent. The water court is funded from the water development account. In fiscal 1985 the water court spent only 61 percent of its budget as the water adjudication program was not 100 percent underway. In anticipation of a workload increase the court was granted a $588,375 budget in fiscal 1987, which is a $224,272 increase over fiscal 1985 actual expenditures. The balance of the increase in the state special revenue fund is in the law library, where $37,053 was granted for an anticipated increase in the use of computerized research services.

ISSUE 1: INFLATION ON BOOKS

The 1985 legislature granted the law library request of an inflation rate of 12.6 percent on legal publications. The 12.6 percent inflation rate was based on the average increase of legal publications as shown by the Rothman Greenslip service. The total budget for legal publication in fiscal 1986 totals $230,176, which includes $25,398 of inflation. The law library has allocated only $215,568 to their legal publications budget, which is $14,608 less than what the legislature was told their needs would be. Of the $14,608, the law library allocated $7,284 to personal services and $7,324 to operating expenses. A total of $32,377 was granted by the legislature for inflation in fiscal 1987. Applying the same allocation of funds for legal publications as the law

library used in fiscal 1986, $18,779 could be reduced from the fiscal 1987 appropriation.

Option A: Reduce the legal publications budget to save $18,779 in fiscal 1987.

Option B: Take no action.

ISSUE 2: ELIMINATE MONTANA REPORTS

The Montana Reports contain the decisions of the Supreme Court of Montana. Montana statute (Section 3-2-604, MCA) requires the Supreme Court to purchase up to 221 copies of the Montana Reports for distribution to various federal, state, and local government agencies. Currently, 175 copies are produced and distributed as shown in table 1.

Table 1
Current Distribution of Montana Reports

Agency	No. of Copies
Attorney General	14
Law Librarian	4
Supreme Court	22
County Attorneys	56
District Court Judges	36
University of Montana Library	1
Law Library of Congress	4
Out-of-State Law and University Libraries[1]	38
TOTAL	175

[1] These copies are distributed by the State Law Library and the University of Montana Law Library to other state and university law libraries in exchange for materials of comparable value.

The 1985 legislature granted $20,060 in each year of the 1987 biennium to publish four volumes of the Montana Reports per year. Each volume in fiscal 1986 costs $5,425 plus $158 for postage on 133 of the volumes. This is an average cost of $31 per copy for those copies distributed in Helena and $32.20 per copy for those copies

distributed outside of Helena. The total cost for four volumes in fiscal 1986 will be $22,333.

In addition to the 175 copies of the Montana Reports purchased by the Supreme Court, the publisher sells approximately 400 copies to private law firms.

Montana statute also provides that reports of all cases shall be provided to the West Publishing Company for inclusion in its publication, the Pacific Reporter. The state law library in Helena currently receives two copies of the Pacific Reporter. The cases reported in the Pacific Reporter are exact duplicates of the cases reported in the Montana Reports. Decisions of the Montana Supreme Court are reported in the Pacific Reporter approximately two months after a decision is rendered. The latest volume of the Montana Reports contained decisions rendered in February, 1983. Any lawyer who desires an up-to-date, thorough review of cases in Montana or other states would need to use a service like the Pacific Reporter. The Pacific Reporter sells for $38.75 per volume, with approximately two volumes issued each month.

The legislature may want to consider repealing the law requiring the supreme court to furnish free copies of the Montana Reports. Agencies in Helena have the alternative of using the Pacific Reporter in place of the Montana Reports. Agencies outside of Helena have the option of purchasing the Montana Reports directly from the publisher.

Option A: Repeal the law requiring the supreme court to distribute free copies of the Montana Reports. This will save the general fund $22,333 per year.

Option B: Amend the law so free copies are only provided to county attorneys and district court judges. This will save the general fund $10,483 each year.

GOVERNOR'S OFFICE

Budget Items	Fiscal 1987 House Bill 500	Fiscal 1987 Governor's Budget	Difference
F.T.E.	63.08	63.08	0.00
Personal Service	$1,962,237	$1,887,597	$ 74,640
Operating Expense	1,126,492	1,088,058	38,434
Equipment	4,200	4,200	-0-
Total Operating Costs	$3,092,929	$2,979,855	$113,074
Non-Operating Costs	73,750	73,750	-0-
Total Expenditures	$3,166,679	$3,053,605	$113,074
General Fund	$2,320,220	$2,207,146	$113,074
Federal Revenue	772,709	772,709	-0-
Proprietary	73,750	73,750	-0-
Total Funding	$3,166,679	$3,053,605	$113,074

ISSUES IN GOVERNOR'S BUDGET	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
Gov. 1. 5 Percent Cut		
A. Executive Office	(51,946)	-0-
B. Mansion Maintenance	(4,540)	-0-
C. Air Transportation	(3,259)	-0-
D. Board of Visitors	(6,430)	-0-
E. Office of Budget and Program Planning	(35,766)	-0-
F. Lt. Governor	(11,133)	-0-
Gov. 2. Coal Tax Lobby Effort	(64,637)	-0-

ISSUE GOV. 1: 5 PERCENT CUT

In the Executive Office Program, two positions will be left vacant and phone, postage and copying expenses will be reduced. Dues budgeted for payment to the Western Governors' Association will be cut by $15,000. The Coal Tax Lobby appropriation will be reduced by 5 percent.

In the Mansion Maintenance Program, a maintenance position budgeted at .50 FTE will be filled at .25 FTE.

In the Air Transportation Program, some reduction in aircraft maintenance expenses should be possible.

The Board of Visitors will reduce the number of facility reviews to five and reviews of the mental health centers will be conducted biennially. Contract services will be reduced. Board meetings will be reduced by one per year.

In the Office of Budget and Program Planning, a 1.0 FTE will be left vacant.

Reduction in the Lieutenant Governor's Office are: travel - $3,633, contract services - $7,000, and other expenses - $500.

ISSUE GOV. 2: COAL TAX LOBBY EFFORT

The appropriation for the coal tax lobby effort is for the purpose of defending the state's right to establish and levy a tax on coal mined within Montana's borders, to oppose federal legislation that would diminish the state's revenue through discriminatory formula or funding allocations, and to monitor federal actions regarding coal transportation and the Clean Air Act. The appropriation also funds the Legislative Oversight Committee in regards to the lobby effort. At the conclusion of the current session of Congress, the executive proposed that the Coal Tax Lobby Program be eliminated. The Office of the Federal-State Coordinator, Montana's Congressional delegation, and the Western Governor's Association will continue to monitor these issues. The Governor's Office estimates that $64,637 can be saved by this proposal.

GOVERNOR'S OFFICE

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	58.02	59.88	64.08	62.90	3.02
Personal Service	$1,604,305	$1,786,209	$1,995,813	$2,062,291	15.5
Operating Expense	800,049	956,984	1,375,760	1,119,492	17.0
Equipment	36,449	77,065	17,200	4,200	(94.6)
Total Operating Costs	$2,440,803	$2,820,258	$3,388,773	$3,185,983	13.0
Non-Operating Costs	-0-	-0-	73,750	73,750	---
Total Expenditures	$2,440,803	$2,820,258	$3,462,523	$3,259,733	15.6
Fund Source					
General Fund	$2,122,505	$2,371,837	$2,392,438	$2,396,713	1.0
State Special	-0-	-0-	238,220	-0-	0.0
Federal Revenue	318,298	448,421	758,115	789,270	76.0
Proprietary	-0-	-0-	73,750	73,750	100.0
Total Funds	$2,440,803	$2,820,258	$3,462,523	$3,259,733	15.6

ISSUES - Fiscal 1987	General Fund	Other Funds
1. Coal Tax Lobby	$(14,000)	-0-
2. 2 Percent Cuts	$(47,654)	-0-

The Governor has constitutional and statutory authority to administer the affairs of the state of Montana, assure that the laws of Montana are faithfully executed, appoint all military and civil officers of the state whose appointments are provided for by statute or the Constitution, approve or disapprove legislation, report to the legislature on the condition of the state, submit a biennial executive budget, grant reprieves and pardons within the best interests of Montana, serve on various boards and commissions as provided by the Constitution and statutes, and represent the state in relations with other governments, the public, and various organizations of states.

Between fiscal 1985 and 1987 the general fund increases by 1 percent. The state special revenue of $238,220 in fiscal 1986 is for the Montana Statehood Centennial Office, which was established to encourage the commemoration and celebration of Montana's 100th anniversary of statehood on November 8, 1989. The centennial office appropriation is a biennial appropriation.

Two new programs were added to the executive office: the Clark Fork River Basin Project and the Client Assistance Program. The principal objective of the Clark Fork River Basin Project is to provide administrative continuity to water related studies. Funding for the project is $267,500 per year from private and federal sources. The purpose of the Client Assistance Program is to assist handicapped individuals receiving or seeking rehabilitative services. Funding for this program is $50,000 each year from the federal Department of Education.

The non-operating costs consist of proprietary funding of $73,750 each year authorized for the state-wide audit. The budget office is to distribute this authority to those agencies who derive a benefit from the state-wide audit. The distribution is to be made to non-general fund sources.

ISSUE 1: COAL TAX LOBBY

The coal tax lobby effort was continued by the 1985 legislature, but at a reduced level. Table 1 shows the coal tax lobby appropriation for fiscal years 1982 to 1987, the actual expenditures for fiscal years 1981 to 1985 and the anticipated expenditures for those fiscal years.

Table 1
Coal Tax Lobby Budget and Expenditures

Fiscal Year	Budget	Expenditure	Balance
1982	$490,931	$189,705	$301,226
1983	301,226	142,763	158,463
1984	358,463	143,264	215,199
1985	200,000[1]	94,524[2]	105,476
1986	151,596[1]	93,572[2]	58,024
1987	108,024	94,000[2]	14,024

[1]Appropriation has been reduced by $3,880 as part of 2 percent cuts.
[2]Anticipated expenditures.

Expenditures for the coal tax lobby effort have declined since fiscal 1982. It has been the legislature's practice in past bienniums to continue the previous biennium unexpended balance into the next biennium. The legislature may want to reduce the fiscal 1987 appropriation by the projected funding balance of $14,000 and reexamine the coal tax lobby program during the 1987 legislative session.

Option A: Reduce the coal tax lobby effort by $14,000 and reexamine the program in the 1987 legislative session.

Option B: Take no action.

ISSUE 2: 2 PERCENT CUTS

The Governor's Office 2 percent cuts in fiscal 1986 amounted to $46,531. Continuing the 2 percent cuts would reduce the fiscal 1987 general fund by $47,654. Table 2 shows the application of the 2 percent cuts to fiscal 1987.

Table 2
Application of 2 Percent Cuts to Fiscal 1987
Governor's Office

Expenditures	Fiscal 1987	2% Cuts	Revised Fiscal 1987
Personal Services	$2,062,291	$20,803	$2,041,488
Operating	1,123,692	26,851	1,096,841
Total	$3,185,983	$47,654	$3,138,329
Funding			
General Fund	$2,396,713	$47,654	$2,349,059
State Special	-0-	-0-	-0-
Federal and Other	789,270	-0-	789,270
Total	$3,185,983	$47,654	$3,138,329

Option A: Reduce the fiscal 1987 general fund by $47,654.

Option B: Take no action.

SECRETARY OF STATE

Budget Items	Fiscal 1987 House Bill 500	Fiscal 1987 Governor's Budget	Difference
F.T.E.	31.5	31.0	0.00
Personal Service	$ 655,780	$ 649,836	$ 5,944
Operating Expense	477,883	475,713	2,170
Equipment	2,000	-0-	2,000
Total Operating Costs	$1,135,663	$1,125,549	$10,114
Non-Operating Costs	80,600	30,000	50,600
Total Expenditures	$1,216,263	$1,155,549	$60,714
General Fund	$ 892,873	$ 848,329	$44,544
State Special	323,390	307,220	16,170
Total Funding	$1,216,263	$1,155,549	$60,714

ISSUES IN GOVERNOR'S BUDGET - Fiscal 1987	General Fund	Other Funds
Gov. 1. 5 Percent Cut		
A. Records Management	$ (7,944)	$(16,170)
B. Administration Code	(36,600)	-0-

ISSUE GOV. 1: 5 PERCENT CUT

The 5 percent reductions are discussed by program in the following narrative.

Records Management

1. A data entry operator in the Corporations Bureau will be reduced. The proposal is to reduce the position to .50 FTE by filling it only during corporate annual reports processing from January through June each year.

2. The equipment budget will be eliminated.

3. Local assistance payments will be reduced. The last legislature established a central filing system for liens covering agricultural products. Part of this new law requires the Department of Revenue to send a copy of financing and continuation statements to the clerk and recorder in the county of the debtor's residence. It also

requires the Secretary of State to pay the county for this filing. At the time budget estimates for this program were prepared, anticipated filing were 22,000 documents with the counties at a filing fee of $2 per document. More recent information suggests an over-estimate on the number of document filings. Therefore, the department does not anticipated that any operational impact from this proposed reduction will occur.

4. Micrographics will be reduced. The estimate of the number of ag lien lenders who will file during fiscal 1987 was revised downwards. Micrographics expenditures depend directly on document volume. Therefore, the department does not anticipate any operational impact from this reduction.

Administrative Code

The Montana Administrative Procedures Act provides that the office supply copies of the Register and ARM updates to a variety of local, state, and federal government offices. Section 2-4-312(2), MCA, states that the cost of these "free" subscriptions "must be paid by appropriation from the general fund." In fiscal 1987, the legislature budgeted $36,600 to cover the costs of these subscriptions. The Secretary of State proposes a one-time elimination of this transfer from the general fund to the state special revenue fund, relying instead on existing cash balances to pay for these subscriptions. Although this will preclude an anticipated reduction in subscription rates and agency filing fees, the office doesn't anticipate any short-run operational impact. Elimination of this transfer in years after fiscal 1987 as a longer-run budget reduction measure would necessitate increased agency filing fees to offset the cost of these "free" copies.

SECRETARY OF STATE

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	30.00	30.00	35.00	31.50	1.50
Personal Service	$ 570,176	$ 593,928	$ 713,602	$ 706,805	19.0
Operating Expense	417,998	456,221	580,686	464,499	1.8
Equipment	16,802	6,649	32,000	-0-	---
Total Operating Costs	$1,004,976	$1,056,798	$1,326,288	$1,171,304	10.9
Non-Operating Costs	70,220	51,600	31,110	80,600	56.2
Total Expenditures	$1,075,196	$1,108,398	$1,357,398	$1,251,904	13.0
Fund Source					
General Fund	$ 901,609	$ 919,339	$ 928,347	$ 920,333	.1
State Special	173,087	189,059	429,051	331,571	75.4
Total Funds	$1,074,696	$1,108,398	$1,357,398	$1,251,904	13.0

ISSUES	Fiscal 1986		Fiscal 1987	
	General Fund	Other Funds	General Fund	Other Funds
1. Records Management	$(21,983)	-0-	$(21,983)	-0-

The Secretary of State is a record-keeping office which files, maintains, and preserves the permanent records of the state and certain public interest records of private citizens. The office also publishes the Montana Administrative Register (MAR) and the Administrative Rules of Montana (ARM).

Personal services rise 19.0 percent and operating expenses rise 1.8 percent from fiscal 1985 to fiscal 1987 due to the addition of the Agricultural Lien Program by the 1985 legislature. Senate Bill 129, which governs the program, establishes a centralized filing system for security interests covering agriculture, provides for computer data to be retrievable by private computers, and provides that the costs of developing and running the computer program be recovered by charging users a fee

for accessing the system. The Agricultural Lien Program is funded by state special revenue, resulting in the 75.4 percent increase from fiscal 1985 to fiscal 1987 in that fund.

The non-operating costs in fiscal years 1984 to 1986 were general fund transfers to the Administrative Rules Program to pay for free copies of the Administrative Rules of Montana to selected state, federal and local government agencies as directed by statute. House Bill 893 limits the number of Administrative Rules of Montana provided to counties and deletes the provision that the clerk of each court of record be provided a copy. Language was included in House Bill 500 that if House Bill 893 passed, the general fund transfer used to pay for the free copies of the Administrative Rules would be reduced from $51,600 to $36,600 each year. As part of their 2 percent cuts the agency further reduced the transfer in fiscal 1986 by $5,490. Non-operating costs of $44,000 are included in fiscal 1987 as transfers of part of the Agricultural Lien Program.

ISSUE 1: REDUCE RECORDS MANAGEMENT FTE

The 1985 legislature set a 4 percent vacancy savings for the records management program for the 1987 biennium. As of January 17, 1986, the program was experiencing, in addition to the 4 percent legislative set vacancy savings, an additional 5.5 percent vacancy savings. In fiscal 1985, the program experienced a 6 percent vacancy savings. An administrative assistant IV position has been vacant all of fiscal 1986. If this position was deleted, $21,983 of general fund could be saved in both fiscal 1986 and 1987. The staffing needs of the records management program would have to be examined during the 1987 legislature to determine if the reduced FTE level could be sustained into the 1989 biennium.

OPTION A: Delete the 1.0 FTE administrative assistant position, saving $21,983 of general fund both years of the 1987 biennium.

OPTION B: Retain the current staffing level.

COMMISSIONER OF POLITICAL PRACTICES

Budget Items	Fiscal 1987 House Bill 500	Fiscal 1987 Governor's Budget	Fiscal 1987 Difference
F.T.E.	4.75	4.75	0.00
Personal Service	$124,136	$124,136	$ -0-
Operating Expense	16,633	9,595	7,038
Equipment	-0-	-0-	-0-
Total Expenditures	$140,769	$133,731	$7,038
General Fund	$139,769	$132,781	$6,988
State Special	1,000	950	50
Total Funding	$140,769	$133,731	$7,038

ISSUES IN GOVERNOR'S BUDGET	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
Gov. 1. 5 Percent Cut	$(6,988)	$(50)

ISSUE GOV. 1: 5 PERCENT CUT

The agency has allocated the 5 percent reduction to operating expenses which is a 42 percent operating expense reduction. Rent of $5,439 is a fixed cost to the Department of Administration and cannot be reduced leaving a balance of $11,284 of operating expenses. Applying the $7,038 reduction to operating expenses translates into a 62 percent operating expenses reduction. This approach does not leave sufficient operating expenses for the agency to perform its functions under law.

COMMISSIONER OF POLITICAL PRACTICES

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	5.0	5.0	4.75	4.75	(.25)
Personal Service	$124,866	$128,769	$123,756	$130,130	1.1
Operating Expense	19,608	12,766	22,268	16,633	30.3
Equipment	195	-0-	195	-0-	---
Total Expenditures	$144,669	$141,535	$146,219	$146,763	3.7
Fund Source					
General Fund	$144,493	$140,794	$144,935	$145,763	3.5
State Special	176	741	1,284	1,000	35.0
Total Funds	$144,669	$141,535	$146,219	$146,763	3.7

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. 2 Percent Reduction	$(2,915)	-0-

The purpose of the Commissioner of Political Practices' Office is to establish consistent requirements for the full disclosure and reporting of the source and disposition of funds used in Montana to support or oppose state and local candidates, political committees, or political issues. The commissioner's office is also responsible for enforcing the election and campaign finance laws and the provisions of the Montana Lobbyist Disclosure Act. In addition, the commissioner is responsible for publishing and disseminating a number of election related reports.

Operating expenses increase 30.3 percent. Budgeted operating expenses for fiscal 1985 totaled $18,153. However, the office shifted $5,819 of operating expenses to personal services to pay salaries in fiscal 1985, as the pay plan was funded through vacancy savings and the office did not have any turnover to generate vacancy

savings. Operating expenses reduced in fiscal 1985 were: communications $959, travel $2,106, rent $630, and supply and materials $1,606.

The state special revenue account is used to record receipts and pay expenses relating to the sale of copies of campaign reports.

ISSUE 1: 2 PERCENT REDUCTION

In response to the Governor's request for a 2 percent reduction in the general fund for fiscal 1986, the office reduced its general fund personal services budget by $2,960. If the 2 percent reduction was made in fiscal 1987, personal services would be reduced by $2,915. Table 1 shows the 2 percent reduction for fiscal 1987.

Table 1
Application of 2 Percent Cuts to Fiscal 1987

Expenditures	Fiscal 1987	2% Cuts	Revised Fiscal 1987
Personal Services	$130,130	$2,915	$127,215
Operating	16,633	-0-	16,633
Total Expenditures	$146,763	$2,915	$143,848
Funding			
General Fund	$145,763	$2,915	$142,848
State Special	1,000	-0-	1,000
Total Funding	$146,763	$2,915	$143,848

Option A: Reduce the fiscal 1987 general fund by $2,915.

Option B: Take no action.

STATE AUDITOR

Budget Items	Fiscal 1987 House Bill 500	Fiscal 1987 Governor's Budget	Difference
F.T.E.	59.5	59.5	0.00
Personal Service	$1,367,738	$1,325,271	$ 42,467
Operating Expense	855,279	776,715	78,564
Equipment	91,000	91,000	-0-
Total Expenditures	$2,314,017	$2,192,986	$121,031
General Fund	$1,091,243	$1,036,681	$ 54,562
State Special	1,222,774	1,156,305	66,469
Total Funding	$2,314,017	$2,192,986	$121,031

ISSUES IN GOVERNOR'S BUDGET - Fiscal 1987	General Fund	Other Funds
Gov. 1. 5 Percent Cut		
A. Central Management	$(25,740)	$ -0-
B. Audit Department	$(28,822)	$(36,969)
C. Insurance	-0-	$(25,000)
D. Securities	-0-	$(4,500)

ISSUE GOV. 1: 5 PERCENT CUT

The budget reductions for the general fund are in the Central Management and Audit Department. Personal services budget reductions will be achieved by not using the additional money appropriated for the reorganization of the office. The reorganization was accomplished without the need of the additional funds. The other funds reduction will be a cost reduction for the PPP system from the central payroll state special revenue fund. Enhancements and special reports from the PPP system will be reduced.

The Insurance and Securities Programs are funded entirely from state special revenues; but spending reductions have a direct general fund impact as unobligated cash balances remaining in these funds at fiscal year-end are transferred to the general fund. Expense reductions will be in travel expense and contracted legal services.

STATE AUDITOR

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	59.0	59.0	60.5	59.5	.5
Personal Service	$1,255,449	$1,315,648	$1,416,949	$1,443,293	9.7
Operating Expense	932,131	918,397	967,177	855,279	(6.9)
Equipment	11,271	13,123	11,934	91,000	593.4
Total Operating Costs	$2,198,851	$2,247,168	$2,396,060	$2,389,572	6.3
Fund Source					
General Fund	$1,965,524	$2,102,997	$1,084,638	$1,125,545	(46.5)
Other Funds	233,327	144,171	1,311,422	1,264,027	776.8
Total Funds	$2,198,851	$2,247,168	$2,396,060	$2,389,572	6.3

ISSUES	Fiscal 1986		Fiscal 1987	
	General Fund	Other Funds	General Fund	Other Funds
1. Funding Switch Central Payroll				
Option A.	-0-	-0-	$(178,312)	$178,312
Option B.	-0-	-0-	$(314,101)	$314,101
2. Personal Services				
Option A.	$(51,757)	-0-	-0-	-0-
Option B.	-0-	-0-	$(56,755)	-0-
3. Office Automation	-0-	-0-	$(100,000)	-0-
4. 2 Percent Cuts				
Option A	-0-	-0-	$(22,511)	$(25,281)
Option B	-0-	-0-	$(19,376)	-0-

The Office of the State Auditor, established by Article VI, Section 1 of the Montana Constitution, has statutory duties to superintend the fiscal concerns of the state, suggest plans for improvement and management of public revenues, keep an accounting system of all state funds, and pay into the state treasury all funds and fees received. The State Auditor is both ex-officio commissioner of insurance and ex-officio securities commissioner. The State Auditor is charged with the duty of licensing and regulating insurance companies and agents within the state. The State

Auditor is also assigned the responsibility of regulating and registering issuers, broker-dealers and investment advisors, and licensing all securities salesmen. The auditor is the director of the central payroll system for paying state employees.

A .50 FTE was added for the 1987 biennium to the Insurance Department to help with the provisions of House Bill 378, which gave regulatory authority to the insurance commissioner over all title insurers. The balance of the personal service increase is due to $75,555 for pay plan and $33,040 for reorganization.

Operating expenses decrease by $63,118, or 6.9 percent. Contract services for legal fees and court costs in the Insurance Department decrease by $39,000 and audit fees to the legislature auditor decrease by $27,868.

Equipment increases due to planned office automation equipment purchases in fiscal 1987 of $90,000.

The general fund decreases by $977,452, or 46.5 percent. Major decreases in the general fund consist of the following:

1. a funding switch from general fund to the state special revenue fund for the insurance and investment programs of $959,027, and

2. funding a larger percentage of the central payroll operation from the state special revenue fund, replacing general fund of $160,829.

If the legislature had not made the funding switches the general fund would have shown an increase of $142,404, or 6.8 percent. The increase is due to:

1. funding for reorganization of $39,991. The reorganization was to reduce the number of divisions in the office from five to four by consolidating functions in the administrative area and all matters dealing with audit and warrent processing. There were no new positions added, and

2. funding for office automation of $110,000. The legislature provided $100,000 in fiscal 1987 to purchase equipment and $10,000 to review the Insurance and Securities Departments' office automation needs.

The 1985 legislature created the state special revenue accounts to fund the operations of the Investment Division and the Insurance Division. These funds were previously deposited into the general fund and the auditor given a general fund appropriation. The statutes now require that all revenues collected by the divisions

be deposited in the state special revenue fund and that all cash remaining after current fiscal year expenditures are met must be transferred to the general fund.

ISSUE 1: FUNDING SWITCH, CENTRAL PAYROLL

The Central Payroll Division operates a central payroll system for state employees and is responsible for the payroll, position, and personnel (PPP) control system. The program is funded from two sources, the general fund and fees charged to users of the PPP central system. The following table shows the budgeted and actual expenditures for the two funding sources for fiscal years 1983 through 1986.

Table 1
Budgeted and Actual Expenditures - Central Payroll
For Period Fiscal 1983 - Fiscal 1986

	- Fiscal 1983 -		- Fiscal 1984 -		- Fiscal 1985 -		- Fiscal 1986 -	
	GF	SSR	GF	SSR	GF	SSR	GF	SSR
Budget	$320,518	$206,276	$572,381	$249,827	$562,585	$228,404	$366,082	$306,911[2]
Expenditures	308,618	149,851	547,552	134,027	542,605	144,172	239,788[1]	197,591[2]
Balance	$ 11,900	$ 56,425	$ 24,829	$115,800	$ 19,980	$ 84,232	$126,294	$109,320
Percent of Total Expenditures	67	33	80	20	79	21	55	45

[1] General Fund - 66 percent expended, 83 percent of year elapsed
[2] SSR - 64 percent expended, 83 percent of year elapsed

The table shows that the general fund share of expenditures in the budget grew from 67 percent in fiscal 1983 to 80 percent in fiscal 1984 and 79 percent in fiscal 1985. The 1985 legislature reallocated the split between the general fund and state special revenue fund to use part of the increasing state special revenue fund balance for the 1987 biennium.

The revenue, expenditures, and fund balance for the state special revenue fund are shown in table 2 for fiscal years 1983 through 1987.

Table 2
Revenues, Expenditures, and Fund Balance
Central Payroll State Special Revenues Fund
Fiscal 1983 through Fiscal 1987

	Fiscal 1983	Fiscal 1984	Fiscal 1985	Fiscal 1986	Fiscal 1987
Beginning Fund Balance	$ 39,438	$ 49,520	$ 173,334	$ 264,923	$ 222,808
Revenues	159,933	257,841	235,761	264,796	260,504
Total Funds Available	199,371	307,361	409,095	529,719	$ 483,312
Expenditures	(149,851)	(134,027)	(144,172)	(306,911)	(305,000)
Ending Fund Balance	$ 49,520	$ 173,334	$ 264,923	$222,808	$ 178,312

State agencies are to apply expenditures against non-general fund money whenever possible before using the general fund appropriations. Section 17-2-108, MCA, states, "The department shall apply expenditures against nongeneral fund money wherever possible before using the general fund appropriations." However, from fiscal 1983 to fiscal 1985, central payroll reverted an average of 3.9 percent of its general fund while reverting an average of 36.9 percent of its state special revenue fund. Table 2 shows that the state special revenue fund had adequate assets for all three years to pay expenditures and revert more general fund. The legislature may want to require that the state auditor use the $178,312 fund balance in the state special revenue funds in fiscal 1987 and reduce the general fund by $178,312.

Table 2 maximizes the expenditures appropriated by the legislature for both fiscal 1986 and 1987. However, based on the expenditures as of April 30, 1986 the program may revert $68,850 in fiscal 1986. If the same expenditure pattern were to develop for fiscal 1987, $66,939 would revert. This would free up another $135,789 of state special revenue fund to use in place of general fund. Added to the projected fund balance of $178,312, a total of $314,101 of general fund could be replaced with state special revenue fund in fiscal 1987.

Option A: Reduce the general fund by $178,312 and increase other funds by $178,312.

Option B: Reduce the general fund by $314,101 and increase other funds by $314,101.

Option C: Take no action.

ISSUE 2: PERSONAL SERVICES

The state auditor presented plans to the 1985 legislature for reorganizing the office. The office was to be realigned with the then present five divisions reduced to four. Some positions were to be reclassified, with an overall increase in salary in order to attract technically qualified personnel. The legislature provided general fund of $33,040 in fiscal 1986 and $39,991 in fiscal 1987 toward the reorganization.

Table 3 shows the budgeted personal services for the State Auditor as of January 18, 1985, when the newly elected State Auditor assumed office compared to the budgeted personal services as of March 28, 1986. The March figures do not include pay plan of $13,127.

Table 3
Comparison of Budgeted Personal Services
1-18-85 to 3-28-86

Budgeted Personal Services	General Fund PER PPP
January 18, 1985	$ 633,376
March 28, 1986	629,791
Difference (decrease)	$ (3,585)

Overall, before pay plan is added the reorganization did not increase the salary level. Table 4 shows the number of reorganized positions and the overall effect the reorganization had on the budget after adding pay plan. Out of a total of 28 current

level positions, four positions were upgraded and four positions were downgraded for a total savings of $16,764.

Table 4
Reclassified Positions and Budget Affect for Fiscal 1986

General Fund	January 18, 1985	March 28, 1986	Increase (Decrease)	Percent of Increase (Decrease)
Upgraded Positions 4 positions	$85,079	$96,816	$ 11,737	13.8
Downgraded Positions 4 positions	$99,801	$71,300	$(28,501)	(28.6)
General Fund Decrease			$(16,764)	

Table 5 shows the legislative approved personal services budget, including pay plan and the anticipated expenditures for personal services for fiscal 1986.

Table 5
Personal Services Budget Compared to Anticipated Expenditures
State Auditors Office - Fiscal 1986

	General Funds
Legislative Authorized Personal Services	$642,918
Anticipated Expenditures	591,161
Balance for Reversion	$ 51,757

The balance that may revert in fiscal 1986 totals $51,757, which is in addition to the 4 percent vacancy savings allocated to the State Auditor by the legislature. The legislature may want to reduce the overfunded personal services for fiscal 1986 for a general fund savings of $51,757.

As shown in table 4, the net decrease in personal services after the reorganization is $16,764. In addition, the legislature authorized $39,991 in fiscal 1987 to

put the reorganization into effect. The legislature may want to reduce the over-budgeted personal services for fiscal 1987 by $56,755 ($16,764 and $39,991).

Option A: Reduce overfunded personal services in fiscal 1986 for a general fund savings of $51,757.

Option B: Reduce overfunded personal services in fiscal 1987 for a general fund savings of $56,755.

Option C: Take no action.

ISSUE 3: OFFICE AUTOMATION

The 1985 legislature authorized $25,000 in fiscal 1986 to determine the general office needs for an office-wide office automation system. Personnel from the auditor's office were to conduct as much of the study as possible. In fiscal 1987, $10,000 of additional study funds were provided to study the needs of the Insurance and Securities Programs. In addition, funding of $90,000 was provided in fiscal 1987 to purchase office automation equipment. The auditor's office completed its study early in fiscal 1986 and, supported by the Department of Administration Purchasing Division, requested bids for implementation of the system in fiscal 1986.

In January, 1986 the auditor's office issued purchase orders in the amount of $161,072 for computer equipment and software to be delivered in March, 1986. In view of the fact that the State Auditor has already purchased the equipment in fiscal 1986, the legislature may want to reduce the 1987 appropriation by $100,000.

Option A: Reduce general fund $100,000.

Option B: Take no action.

ISSUE 4: 2 PERCENT CUTS

In response to the Governor's request for a 2 percent reduction in general fund expenditures, the department reduced contract services in the Central Payroll Program by $22,135. Applying a 2 percent reduction to the general fund in fiscal 1987 would result in a reduction of $22,511, as shown in table 7.

The balance in the state special revenue fund reverts to the general fund at the end of the fiscal year. Therefore, the legislature may also want to reduce the state special revenue fund by 2 percent. A 2 percent reduction in the state special revenue fund would total $25,281.

Table 7
Application of 2 Percent Cuts to Fiscal 1987

Expenditures	Fiscal 1987	2% Cuts	Revised Fiscal 1987
Personal Services	$1,443,293	$ -0-	$1,443,293
Operating	946,279	22,511	923,768
Total	$2,389,572	$22,511	$2,367,061
Funding			
General Fund	$1,125,545	$22,511	$1,103,034
State Special	1,264,027	-0-	1,264,027
Total	$2,389,572	$22,511	$2,367,061

Option A: Reduce the fiscal 1987 general fund by $22,511 and the state special revenue fund by $25,281.

Option B: Reduce the fiscal 1987 general fund by $19,376.

Option C: Take no action.

Budget Items	Fiscal 1987 House Bill 500	Fiscal 1987 Governor's Budget	Difference
F.T.E.	549.35	542.35	7.0
Personal Service	$15,040,028	$14,300,853	$ 739,175
Operating Expense	5,173,570	4,807,523	366,047
Equipment	1,208,152	933,606	274,546
Total Expenditures	$21,421,750	$20,041,982	$1,379,768
General Fund	$ 9,544,765	$ 5,157,262	$ 4,387,503
State Special	10,623,747	13,631,482	(3,007,735)
Federal Revenue	822,730	822,730	-0-
Proprietary	430,508	430,508	-0-
Total Funding	$21,421,750	$20,041,982	$1,379,768

ISSUES IN GOVERNOR'S BUDGET - Fiscal 1987	General Fund	Other Funds
Gov. 1. 5 Percent Cut		
A. Legal Services	$ (39,773)	$ (6,060)
B. Indian Legal Jurisdiction	(4,974)	-0-
C. Driver Services	(91,318)	(14,857)
D. Highway Patrol	-0-	(467,676)
E. Motor Vehicle	-0-	(99,712)
F. County Attorney Payroll	(41,616)	-0-
G. Law Enforcement Network	-0-	(37,307)
H. Law Enforcement Academy	-0-	(29,630)
I. Fire Marshall	(16,574)	-0-
J. Identification	(12,135)	-0-
K. Criminal Investigators	(32,294)	-0-
L. Central Services	-0-	(18,869)
M. Data Processing	(15,794)	-0-
N. Transportation of Prisoners	(8,340)	-0-
O. Forensic Science	-0-	(33,880)
Subtotal	$(262,818)	$(707,991)
Adjustment[1]	$(22,667)	22,667
Total Executive 5 Percent Cut	$(285,485)	$(685,324)
Gov. 2. Funding Switch - Highway Patrol	($3,082,747)	$3,082,747
Gov. 3. Funding Switch - County Attorney Payroll	$(610,312)	$610,312
Gov. 4. Delay New Program	$(408,959)	-0-

[1]The executive 5 percent reduction was applied to the total general fund and state special revenue fund. The department allocation resulted in a $22,667 over-allocation in the state special revenue fund and an under-allocation in the general fund. As of the publication of this document, the department has not reallocated the $22,667.

ISSUE GOV. 1: 5 PERCENT CUT

The 5 percent cuts are discussed by program.

LEGAL SERVICES

Personal Services - $10,756

A .50 FTE secretary will be left vacant for the entire fiscal year. A 1.0 FTE attorney position will be left vacant for three months.

Operating Expenses - $35,077

The reduction in operating expenses includes $20,000 designated for multi-district case assessments in antitrust cases. The Attorney General has extricated the state from all multi-district cases it was previously party to, so there will be no assessments for fiscal 1987. The additional reductions in operating expenses are in contract services, including Westlaw Research, continuing legal education and travel.

INDIAN LEGAL JURISDICTION

Operating Expenses - $4,974

Travel will be reduced, leaving a balance of $2,100. Travel expenses have not been as high as originally projected. This reduction will limit the amount of travel not directly case related. If necessary, some case related travel could be charged to the Legal Services Case Travel line item, provided funds are available.

DRIVER SERVICES BUREAU

Personal Services - $68,675

Headquarter and field staff will be reduced, including examiner and clerical positions. The planned reductions will affect the Billings, Great Falls, Missoula, Bozeman, Deer Lodge, and Libby areas, with some secondary impact on adjacent stations.

Operating Expenses - $21,500

Printing of driver license and motorcycle manuals will be delayed and "hot line" phones for exam stations will be removed. Large motor vehicle registration customers will be converted to "tape in tape outs", reducing postage expenses for motor vehicle checks for insurance companies.

Equipment - $16,000

The purchase of two Driver Services Bureau vehicles will be delayed and two old highway patrol vehicles used as replacements.

HIGHWAY PATROL

Personal Services - $313,539

A 5 percent cut in personal services for the Highway Patrol Program will require that the highway patrol run 13.28 FTE officer positions vacant for the entire fiscal year.

Equipment - $154,137

A 5 percent cut in equipment will be accomplished by purchasing approximately 14 fewer patrol cars.

MOTOR VEHICLE REGISTRATION

Personal Services - $33,212

Personal service reductions will be achieved through forced vacancies. Seasonal workload may result in a moratorium on personalized plate processing and dealer inspections.

Operating Expenses - $51,500

Reductions are made in printing, postage, microfilm services, phone lines, and data processing rent. If necessary, mail renewal notices will be discontinued.

Equipment - $15,000

Reductions will delay all equipment purchased until the next biennium.

COUNTY ATTORNEY PAYROLL

Personal Services - $41,616

The County Attorney Payroll Program pays for one-half of the salary of the 56 elected county attorney's. House Bill 500 prohibits the reduction of salaries of elected officials during their term of office. Therefore, it may not be feasible to reduce this program by 5 percent unless the language is changed in House Bill 500.

LAW ENFORCEMENT NETWORK

Personal Services - $9,607

A 5 percent cut in the highway state special revenue fund will require a .25 FTE reduction. This will be accomplished by reducing the 24 hour service at the Glendive Patrol Communications Center.

A 5 percent reduction in general fund for personal services will require a .35 FTE reduction in the Helena Patrol Communications Center.

Operating Expenses and Equipment - $27,700

The Criminal Justice Information Network (CJIN) will reduce the number of hours the toll free telephone service is available to users and will review consolidation of more network lines. Alternatives to on-site training for CJIN users will be developed and, when travel is required for training, regional or area-wide classes will be considered. Equipment required to add new users to the system will be purchased only if funds are available.

LAW ENFORCEMENT ACADEMY

Personal Services - $5,035

A legal instructors position will be left vacant 36 weeks, reducing the number of

legal schools and requiring additional expenditures from contract services for consultant instructors.

Operating Expenses - $21,595

The reduction in operating expense will mean fewer courses in the special school programs and regional training programs.

Equipment - $3,000

The reduction in equipment will mean the equipment replacement schedule will have to be adjusted.

FIRE MARSHALL

Personal Services - $12,034

A deputy state fire marshal position will be vacant for 19 weeks.

Operating Expenses - $4,540

The operating expenses for this program are reduced to reflect the vacant position.

IDENTIFICATION

Personal Services - $12,135

A grade 6 fingerprint clerk position will be vacant for the entire fiscal year.

CRIMINAL INVESTIGATION

If the program is not delayed but is only cut 5 percent, personal services would be reduced $27,122. The operating expenses would be reduced $5,172.

The executive budget proposes delaying the criminal investigator program expansion for fiscal 1987, and reducing the general fund under a policy issue by $408,959. The executive budget also applied a 5 percent reduction of the $408,959 policy reduction in the across the board cuts and this resulted in the executive taking $13,348 more general fund out of the program than was appropriated.

CENTRAL SERVICES

Equipment - $18,869

The 5 percent reduction will be accomplished by decreasing the insurance reimbursement account, which receives insurance refunds and payments for damaged equipment during the fiscal year. The appropriation is only used to offset replacement costs of equipment replaced by insurance.

DATA PROCESSING

Personal Services - $8,094

A grade 16 programmer analyst position will be open for 15 weeks.

Operating Expenses and Equipment - $3,700

The 5 percent reduction will limit travel for maintenance and continuing education for programmers.

Equipment - $4,000

A personal computer which was authorized will not purchased.

TRANSPORTATION OF PRISONERS

Operating Expenses - $8,340

The cost of extraditing and transporting prisoners is always unknown from year to year. In the past, there have been cost overruns in some years and reverted funds in others.

FORENSIC SCIENCE

Personal Services - $4,594

The reduction in personal services will be accomplished by leaving one of the two chemist positions vacant for 10 weeks.

Equipment - $29,286

The division was budgeted to purchase a replacement automobile at $9,286 and a gas chromatograph at $20,000. The gas chromatograph (GC) is to replace an old GC used in the toxicology section to analyze for the presence of drugs and pesticides in cases involving coroners.

ISSUE GOV. 2: FUNDING SWITCH - HIGHWAY PATROL

In the highway patrol program, all civilian personal services, equipment, and operating costs are funded with general fund. Personal services of uniformed highway patrol officers are paid from the highway special revenue account. The executive proposal is the same as the Legislative Fiscal Analyst issue in that all general fund monies will be replaced by highway special revenue funds.

The executive shows a funding switch of $3,082,742. After the funding switch to the highway state special revenue account the executive applied a 5 percent reduction resulting in a cut of $154,137. Therefore the net affect on the highway state special revenue fund is $2,928,605.

Funding all program expenses with earmarked highway revenue would allow the flexibility to use operating expense savings to offset a portion of the vacancy savings required in uniformed officer personnel costs.

ISSUE GOV. 3: FUNDING SWITCH - COUNTY ATTORNEY PAYROLL

The county attorney payroll program provides state funding for the salaries of county attorneys and one-half the salary of no more than two deputy county attorneys per county. This proposal would shift state funding of deputy county attorney salaries from the general fund to a state special revenue fund, but would not alter the amount appropriated. This policy would reduce general fund appropriations by $752,312 and decrease general fund revenue by about $142,000, for a net general fund spending reduction of $610,312. County attorneys' salaries would still be paid from the general fund.

Senate Bill 116 passed by the 1985 legislature expanded the county attorney payroll program: 1) to provide state funding for half of the salary and longevity benefits of no more than two deputy county attorneys per county; and 2) to increase the salaries of part-time county attorneys. The appropriation was made from the general fund. However, Senate Bill 116 included a fee increase to be deposited to the general fund to offset the cost. Revenues from the passage of Senate Bill 116 have been lower than anticipated. If cash balances in the state special revenue fund were inadequate to pay all authorized expenditures, available cash would be prorated among counties and any shortfall in the salaries payable to deputy county attorneys would be the responsibilities of the respective counties.

ISSUE GOV. 4: DELAY NEW PROGRAM

The 1985 legislature approved an expansion of the criminal investigators program, adding 7.0 FTE and $408,959 in general fund monies to provide undercover investigation into stolen property and illegal drug cases. The Department of Justice has not begun the hiring process for the 7 new FTE authorized for fiscal 1987. The executive is requesting this program not be started in fiscal 1987.

DEPARTMENT OF JUSTICE

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	525.10	527.35	542.35	549.35	22.0
Personal Service	$13,108,844	$13,826,696	$14,940,694	$15,753,833	13.9
Operating Expense	4,737,105	4,716,114	5,252,372	5,174,353	9.7
Equipment	1,188,132	1,415,044	1,469,878	1,208,152	(14.6)
Total Expenditures	$19,034,081	$19,957,854	$21,662,944	$22,136,338	10.9
Fund Source					
General Fund	$ 8,991,637	$ 9,652,369	$ 9,271,040	$ 9,778,612	1.3
State Special	9,317,179	9,354,387	11,138,054	11,066,767	18.3
Federal Revenue	347,249	472,780	816,228	844,017	78.5
Proprietary	378,016	478,318	437,622	446,942	(6.6)
Total Funds	$19,034,081	$19,957,854	$21,662,944	$22,136,338	10.9

ISSUES - Fiscal 1987	General Fund	Other Funds
1. Vehicle Purchases	$(250,000)	-0-
2. Highway Patrol Funding Switch		
Option A.	$(3,113,688)	$3,113,688
Option B.	$(2,863,688)	$2,863,688
3. Narcotics and Stolen Property	$(408,959)	-0-
4. County Attorney Payroll	$(752,312)	-0-
5. Indian Legal Jurisdiction Program	$(118,551)	-0-
6. 2 Percent Cuts		
Option A.	$(195,572)	-0-
Option B.	$(107,702)	-0-

The Department of Justice, under the direction of the Attorney General, is responsible for state law enforcement and public safety. The duties of the department include the following: (1) attend the Supreme Court and prosecute or defend all causes to which the state or any officer thereof in his official capacity is a party and all causes to which any county or some officer thereof acting in his official capacity may be a party, unless the interest of the county is adverse to the state, (2) exer-

cise supervisory powers over county attorneys in all matters pertaining to the duties of their offices, (3) assist county attorneys in the discharge of their duties, (4) give legal opinions, (5) enforce Montana traffic laws and register all motor vehicles, and (6) enforce state fire safety codes and regulations.

FTE increase by 22.0 from fiscal 1985 to fiscal 1987. Seven FTE were added for an increased effort in the investigation of narcotics and stolen property cases. The 55 mph enforcement squad in the Highway Patrol was increased by 2.5 FTE. Six FTE were added to the Highway Patrol for enforcement of safety standards for motor carriers. The Rocky Mountain Information Network was increased by .5 FTE. The data processing division increased 2.0 FTE to staff the new computer center at the National Guard Armory for the Law Enforcement Teletype system. A 1.0 FTE forensic scientist to analyze DUI samples was added to the forensic science lab in Missoula. Four FTE dispatchers were added to staff the regional dispatch center in Glendive on a 24 hour basis. A 1.0 FTE responsible for the juvenile training project was transferred from the law enforcement academy to the Board of Crime Control.

The general fund shows an increase of $126,243, or 1.3 percent. The general fund was decreased approximately $1.3 million by the legislature, as general fund was replaced with motor vehicle fees in the law enforcement academy, the law enforcement network, the forensic science lab and the driver licensing programs. Other decreases in the general fund amount to approximately $298,000 which consists of a 4 percent vacancy savings in fiscal 1987 and vacancy savings realized in fiscal 1985. Increases in the general fund include approximately $1.3 million in modified requests ($50,000 per diem to counties for overnight retention of prisoners, $752,000 in increased county attorney payroll, $409,000 in a criminal undercover unit, and $49,000 for two data processing operators.) Current level increases include a $200,000 increase in the highway patrol for equipment purchases; and $234,000 increase in the pay plan.

The state special revenue fund increases by $1.7 million or 18.3 percent. Major increases were the $1.3 million funding switch detailed in the general fund analysis and a $.4 million increase in salaries for highway patrol officers.

Federal revenue shows an increase of $371,237, or 78.5 percent. In fiscal 1987, $308,000 was added for the motor carrier safety program transferred from the Public Service Commission and the 55 mph special enforcement squad was increased by approximately $50,000.

ISSUE 1: VEHICLE PURCHASES

The legislature authorized 70 new patrol cars for the Highway Patrol in fiscal 1986 at a cost of $899,080 and 70 new patrol cars in fiscal 1987 at a cost of $989,030 in general fund. The price authorized by the legislature was based on the most recent purchase of vehicles in fiscal 1985 plus inflation. However, in fiscal 1986 the department purchased only 67 vehicles at a cost of $723,533, saving $175,547 of general fund. Of the $175,549 in savings, $137,015 was a result of a lower than anticipated cost of the vehicles and $33,532 was because three vehicles were not purchased. A purchase of 67 vehicles in fiscal 1987, after allowing for a slight increase for inflation, would cost approximately $739,000, saving the general fund $250,000. The legislature may want to reduce the highway patrol vehicle budget by $250,000 based on the recent purchase of vehicles in fiscal 1986.

Option A: Reduce the general fund by $250,000.

Option B: Take no action.

ISSUE 2: HIGHWAY PATROL FUNDING SWITCH

The Highway Patrol is currently funded from three sources. Table 1 details the funding for the Highway Patrol in fiscal 1987.

Table 1
Highway Patrol Funding Sources for Fiscal 1987

Category	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Total
Personal Services	$ 538,650	$6,578,305	$233,901	$ 7,350,856
Operating Expenses	1,528,008	-0-	256,661	1,784,669
Equipment	1,047,030	-0-	2,328	1,049,358
Total	$3,113,688	$6,578,305	$492,890	$10,184,883

Federal funds pay for the 55 mph enforcement squad, advanced training, and the motor carriers standards enforcement program. Section 44-1-501, MCA, provides that all salaries of members of the highway patrol shall be paid out of the highway department's account in the state special revenue fund. The balance of salaries, operating expenses, and equipment is funded by the general fund.

Article VIII, Section 6, of the Montana Constitution provides that the highway state special revenue fund may be used for highway safety. The $3,113,688 of general fund operating expenses could therefore be funded from the highway account.

If Option A of Issue 1 is exercised by the legislature, $250,000 of operating costs will be eliminated. Therefore a funding switch of only $2,863,688 would be needed.

Option A: Reduce the general fund by $3,113,688 and increase the state special revenue fund by $3,113,688.

Option B: Reduce the general fund by $2,863,688 and increase the state special revenue fund by $2,863,688.

Option C: Take no action.

ISSUE 3: NARCOTICS AND STOLEN PROPERTY

The 1985 Legislature authorized the Department of Justice 7.0 FTE in fiscal 1987 to increase criminal investigation of narcotics and stolen property cases in the state of Montana at a total cost to the general fund of $408,959. As of April 30, 1986 the

department had not made any commitments to hire personnel to start the program. Due to the drop in revenues the legislature may want to delay implementing the program until the 1989 biennium.

Option A: Delay implementing the program until the 1989 biennium for a general fund savings of $408,959 in fiscal 1987.

Option B: Take no action.

ISSUE 4: COUNTY ATTORNEY PAYROLL

Prior to fiscal year 1986 the county attorney payroll program paid one-half of the salary and benefits of the 56 county attorneys. Senate Bill 116 of the 1985 session provided that one-half of the salary and benefits of no more than two deputy county attorneys from each county would also be funded from the general fund. The bill provided that a charge of $10 in each misdemeanor case and the greater of $20 or 10 percent of the fine levied in each felony case be assessed on those fined upon their conviction for any conduct made criminal by state statute and on those who forfeit bond or bail, and that these charges be deposited to the general fund to pay for the program. Table 2 shows the department's estimate of revenue and expenditures under Senate Bill 116.

Table 2
Department of Justice Estimated Revenue and Expenditures - Senate Bill 116

	Fiscal 1986	Fiscal 1987	Biennium Total
Revenue Estimate	$826,434	$826,434	$1,652,868
Expenditures	715,787	752,312	1,468,099
Net Revenue to General Fund	$110,647	$ 74,122	$ 184,769

As of February 28, 1986, $90,867 of the revenue estimate for fiscal 1986 has been collected. This is 13 percent of the revenue needed for fiscal 1986 while 67 percent of the year has elapsed. At the current rate of collection the revenue collected in

fiscal 1986 will total approximately $136,300. In addition to the expenditure of $715,787 in fiscal 1986 the department is estimating that an additional $67,000 supplemental will be needed to fully fund the program. If this estimate is correct the revenue shortfall to the general fund will be approximately $647,000 for fiscal 1986 and $691,000 in fiscal 1987 for a total biennium shortfall of $1,340,000.

The reason for the shortfall is not apparent at this time. Table 3 provides details on the collections for the period of July 1, 1985 through February 28, 1986.

Table 3
County Collections of Revenue Under Senate Bill 116
through February 1986

Category	Number of Counties	Revenue Total	Percent of Revenue
Counties not reporting any revenue	24	$ -0-	-0-
Counties reporting under $1,000	13	3,275	4
Counties reporting $1,000 to $2,000	5	7,163	8
Counties reporting over $2,000	14	80,529	88
Total	56	$90,967	100

There are two related reasons that may explain the revenue shortfall:

1. An overstated revenue estimate by the Department of Justice; and
2. Some judges may not be assessing the fines required under Senate Bill 116.

In preparing the revenue estimate the Department of Justice made the assumption that for 100 percent of all cases a fine would be assessed and collected. There are, however, two provisions in Senate Bill 116 which may make this assumption invalid:

1. If a convicting court determines that the defendant is not able to pay the fine and costs or that he is unable to pay within a reasonable time, the court must waive payment of the charge imposed by Senate Bill 116.
2. The total of the charge imposed by this section and any fine assessed may not exceed the maximum fine authorized by law for the offense.

Statistics have never been available on these two provisions. Therefore, when the revenue estimate was made it was not known to what percentage of cases the two provisions would apply.

Table 4 shows the revenue collection and the population for each county.

Table 4
Revenue Collection for Senate Bill 116 July 1985 through February 1986

County	Population	Amount	County	Population	Amount
1. Beaverhead	8,186	$ -0-	29. McCone	2,702	$ -0-
2. Big Horn	11,096	6,682	30. Meagher	2,154	-0-
3. Blaine	6,899	2,268	31. Mineral	3,675	144
4. Broadwater	3,267	-0-	32. Missoula	76,016	13,861
5. Carbon	8,099	-0-	33. Musselshell	4,428	-0-
6. Carter	1,799	36	34. Park	12,660	3,699
7. Cascade	80,696	10,260	35. Petroleum	655	-0-
8. Choteau	6,092	-0-	36. Phillips	5,367	-0-
9. Custer	13,109	4,545	37. Pondera	6,731	-0-
10. Daniels	8,835	90	38. Powder River	2,520	-0-
11. Dawson	11,805	8,643	39. Powell	6,958	220
12. Deer Lodge	12,518	1,521	40. Prairie	1,836	243
13. Fallon	3,763	-0-	41. Ravalli	22,493	-0-
14. Fergus	13,076	4,239	42. Richland	12,243	-0-
15. Flathead	51,966	1,683	43. Roosevelt	10,467	2,403
16. Gallatin	42,865	-0-	44. Rosebud	9,899	1,123
17. Garfield	1,656	315	45. Sanders	8,675	-0-
18. Glacier	10,628	2,232	46. Sheridan	5,414	1,550
19. Golden Valley	1,026	387	47. Silver Bow	38,092	-0-
20. Granite	2,700	198	48. Stillwater	5,598	40
21. Hill	17,985	4,993	49. Sweet Grass	3,216	3,186
22. Jefferson	7,029	477	50. Teton	6,491	-0-
23. Judith Basin	2,646	-0-	51. Toole	5,559	-0-
24. Lake	19,056	-0-	52. Treasure	981	-0-
25. Lewis and Clark	43,039	1,286	53. Valley	10,250	144
26. Liberty	2,329	495	54. Wheatland	2,358	-0-
27. Lincoln	17,752	10,719	55. Wibaux	1,976	2,800
28. Madison	5,448	-0-	56. Yellowstone	108,035	486
			TOTAL		$90,968

Major differences exist in regards to population and revenue collected. For example, Wibaux county has a population of 1,976 and has collected $2,800 in revenue, while Yellowstone County has a population of 108,035 but has collected only $486. It appears as if some judges may not be assessing the fines. The only way of determin-

ing if the judges are or are not assessing the fines would be to visit each court and conduct an extensive file search for convictions and fines. Currently, time is not available to conduct such a study.

The legislature added the deputy county attorney salaries based on an estimate that revenue deposited to the general fund would cover the additional costs. Since the revenue is not being raised, the legislature may want to repeal the provisions in Senate Bill 116 that require the state to pay one-half of the salary of no more than two deputy county attorneys.

Option A: Repeal the provision that the state pay one-half of the salary of no more than two deputy county attorneys, saving the general fund $752,312 in fiscal 1987.

Option B: Delete the law that requires the state pay one-half of no more than two deputy county attorney salaries, and require that the fees now deposited to the state general fund be deposited to the county general fund for payment of the deputy county attorney salaries. Savings to the general fund would be the same as in Option A.

Option C: Take no action.

ISSUE 5: INDIAN LEGAL JURISDICTION PROGRAM

The Indian Legal Jurisdiction program provides coordination of trial and appellate lawsuits involving the state of Montana and the Indian tribes, provides legal services, and supervises private attorneys contracted by the state to assist with those cases. A line-item general fund biennial appropriation of $400,000 for legal fees and court costs was approved for the 1987 biennium.

Expenditures through April 30, 1986 were $26,712. In addition, as part of the department's 2 percent reduction the appropriation was further reduced by 9.9 percent, or $39,737, resulting in a balance in the line-item appropriation of $333,551.

Based on current information, the Department of Justice has estimated that likely expenditures for the remainder of the 1987 biennium will total $215,000, leaving a balance in the line item appropriation of $118,551. The legislature may want to reduce the appropriation based on the current information supplied by the department.

Option A: Reduce the general fund line item appropriation by $118,551.

Option B: Take no action.

ISSUE 6: 2 PERCENT CUTS

In compliance with the Governor's request for a 2 percent reduction of general fund in fiscal 1986, the department reduced its budget by $189,205. The 2 percent cuts included $35,313 in personal services, $71,610 in operating expenses and $82,282 in equipment. The personal service cuts were the result of vacancy savings in the Law Enforcement Teletype program, criminal investigations bureau, central services division and drivers services bureau. Of the $71,610 cuts in operating expenses, $39,737 was identified as contract services in the Indian legal jurisdiction programs. Specific cuts for the balance of $31,873 were not identified by the department. The highway patrol reduced its equipment budget by $54,799. Other specific equipment reductions of $27,483 were not identified by the department. Table 5 shows the application of the 2 percent cuts to fiscal 1987. If the legislature adopts Options A of Issues 1 through 5, the 2 percent cuts would only be $107,702.

Table 5
Application of 2 Percent Cuts to Fiscal 1987

Expenditures	Fiscal 1987	2% Cuts	Revised Fiscal 1987
Personal Services	$15,753,833	$ 36,493	$15,717,340
Operating	6,382,505	159,079	6,223,426
Total	$22,136,338	$195,572	$21,940,766
Funding			
General Fund	$ 9,778,612	$195,572	$ 9,583,040
State Special	11,066,767	-0-	11,066,767
Federal and Other	1,290,959	-0-	1,290,959
Total	$22,136,338	$195,572	$21,940,766

Option A: Reduce the fiscal 1987 general fund by $195,572.

Option B: Reduce the fiscal 1987 general fund by $107,702.

Option C: Take no action.

HIGHWAY TRAFFIC SAFETY

Budget Items	Fiscal 1987 House Bill 500	Fiscal 1987 Governor's Budget	Difference
F.T.E.	8.5	8.5	0.00
Personal Service	$ 247,277	$ 247,277	$ -0-
Operating Expense	204,350	200,815	3,535
Total Operating Costs	$ 451,627	$ 448,092	$3,535
Non-Operating Costs	1,100,000	1,100,000	-0-
Total Expenditures	$1,551,627	$1,548,092	$3,535
State Special	$ 70,691	$ 67,156	$3,535
Federal Revenue	1,480,936	1,480,936	-0-
Total Funding	$1,551,627	$1,548,092	$3,535

ISSUES IN GOVERNOR'S BUDGET - Fiscal 1987	General Fund	Other Funds
Gov. 1. 5 Percent Cut	-0-	$(3,535)

ISSUE GOV. 1: 5 PERCENT CUT

The 5 percent reduction is in the highway state special revenue account. That account pays for 50 percent of the planning and administrative program costs; the other 50 percent is a match of federal funds. If there is a state fund reduction of 5 percent, there will be an equal loss of federal funds. Federal administration funds that are not used cannot be used for grants. Unused federal administration funds are returned to the federal government.

HIGHWAY TRAFFIC SAFETY

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	8.5	8.5	8.5	8.5	0.0
Personal Services	$232,729	$ 231,603	$ 250,807	$ 260,298	12.4
Operating Expenses	151,899	201,234	201,812	204,350	1.6
Equipment	-0-	75,392	10,000	-0-	---
Total Operating Costs	$384,628	$ 508,229	$ 462,619	$ 464,648	(8.6)
Non-Operating Costs	479,922	906,432	1,100,000	1,100,000	21.4
Total Expenditures	$864,550	$1,414,661	$1,562,619	$1,564,648	10.6
Fund Source					
State Special	$ 68,316	$ 65,288	$ 72,525	$ 73,945	13.3
Federal Special	796,234	1,349,373	1,490,094	1,490,703	10.5
Total Funds	$864,550	$1,414,661	$1,562,619	$1,564,648	10.6

Highway Traffic Safety assists local and state government entities in promoting traffic safety in order to reduce death, injury, and property loss that results from highway traffic accidents.

The major reason the budget increases 10.6 percent from fiscal 1985 to fiscal 1987 is that grants to cities and counties were less than originally anticipated in fiscal 1985. A 50 percent state match on administration and planning costs is required in order to secure the federal funds. Highway gas taxes provide the state's match. National Highway Safety Administration federal funds not used for program administration are allocated in the ratio of 60 percent to local government and 40 percent to state agencies.

The agency received a budget amendment in fiscal 1985 for federal funds to purchase computer equipment to establish and maintain a comprehensive computerized traffic safety record keeping system, resulting in the decrease of $75,392 in fiscal 1987.

CRIME CONTROL DIVISION

Budget Items	Fiscal 1987 House Bill 500	Fiscal 1987 Governor's Budget	Difference
F.T.E.	14.0	13.0	1.0
Personal Service	$401,287	$384,687	$16,600
Operating Expense	166,797	159,093	7,704
Equipment	500	500	-0-
Total Expenditures	$568,584	$544,280	$24,304
General Fund	$486,084	$461,780	$24,304
Federal Revenue	82,500	82,500	-0-
Total Funding	$568,584	$544,280	$24,304

ISSUES IN GOVERNOR'S BUDGET - Fiscal 1987	General Fund	Other Funds
Gov. 1. Governor's 5 Percent Cut	$(24,304)	-0-

ISSUE GOV. 1: 5 PERCENT CUT

The Board of Crime Control proposes that it would meet a 5 percent across-the-board budget reduction in fiscal 1987 by deleting 1 FTE and by decreasing travel and contracted services expenses. The reduction in personal services of $16,600 is a statistical clerk. This position is one of two which function as a "support pool" to process secretarial work for six standing committees, and data entry for adult and juvenile arrest and offense data.

Travel costs will be decreased $3,500 in two areas: 1) reducing travel for technical assistance to local agencies, and 2) reducing the number of meetings of the Peace Officers' Standards and Training Council from four to two per year. Certification of peace officers by the council would then be changed from a quarterly to a semi-annual basis.

The agency has a fiscal 1987 budget of $30,000 for contract services, which includes $20,000 for data entry of arrest and offense data and $10,000 for printing and other costs. The proposed reduction of $4,204 would amount to a 14 percent

decrease in this budget. The agency has expressed concern that the reduction could result in incomplete participation in the National Crime Reporting System. A scheduled conversion in August 1986, of the Uniform Crime Reporting System to automated entry of data by local law enforcement agencies should, however, significantly reduce data entry requirements at the state level, and lessen the impact of cut-backs in both contract services and personal services.

MONTANA BOARD OF CRIME CONTROL

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	13.00	13.00	14.00	14.00	1.00
Personal Service	$348,708	$362,828	$407,988	$418,879	15.4
Operating Expense	141,482	145,357	163,396	166,797	14.7
Equipment	4,577	6,103	500	500	(91.8)
Total Expenditures	$494,767	$514,288	$571,884	$586,176	14.0
Fund Source					
General Fund	$412,304	$421,871	$489,384	$503,676	19.4
Federal Revenue	82,463	92,417	82,500	82,500	(10.7)
Total Funds	$494,767	$514,288	$571,884	$586,176	14.0

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. Juvenile Justice Training		
Option A.	$(48,588)	-0-
Option B.	$(14,500)	-0-
2. Uniform Crime Reporting System		
Option A.	$(65,000)	$65,000
Option B.	$(20,000)	-0-
3. 2 Percent Cuts		
Option A.	$(10,074)	-0-
Option B.	$(7,803)	-0-

The Montana Board of Crime Control (MBCC) was established in 1968 to administer action grant funds to various state and local agencies. The agency is governed by a supervisory board of 18 members representative of law enforcement and criminal justice agencies. The members of the Supervisory Board are appointed by the Governor. The major source of funding for this agency until fiscal 1984 was the now defunct Law Enforcement Assistance Administration.

The legislature replaced federal funds of $212,885 in fiscal 1984 and $190,480 in fiscal 1985 with general fund money. This 68 percent increase in general fund was to

allow the agency to provide technical assistance to state and local law enforcement agencies. Assistance is provided in the areas of jail improvement, management and statistical analysis, crime prevention, crimestoppers, manpower development, information systems, residential programs for youth in trouble, and the establishment of minimum law enforcement standards for equipment, procedures, and training schools administered by the state or any of its political subdivisions.

The agency administers three federal action grant programs. The majority of the grant funds are passed down to local law enforcement agencies, non-profit service providers, and judicial districts in approximately 65 grants. The grant programs and the level of funding in fiscal 1986 are shown in table 1. The agency expects to receive the same grants in fiscal 1987 at approximately the same funding levels.

Table 1
Board of Crime Control - Federal Flow-Through Grant Funds
Fiscal 1986

Grant	Amount	Primary Grant Recipients	Primary Purpose
Victim Assistance	$224,000	Private, non-profit organizations	Aid to crime victims
Bureau of Justice Assistance	390,000	Local law enforcement agencies	Criminal justice programs
Juvenile Justice Assistance	142,500*	Judicial districts	Youth deinstitutionalization
	$756,500		

*Does not include $82,500 that goes to MBCC - Juvenile Justice Bureau (See table 2)

The agency has four bureaus: Juvenile Justice, Planning and Research, Peace Officers' Standards and Training, and Grant Administration.

The Juvenile Justice Bureau is responsible for awarding, distributing, and monitoring funds awarded the state under the Juvenile Justice Act. It is also responsible for the Juvenile Justice Training Program, reorganization of youth justice services in Montana, assistance to the Juvenile Court Administration System, and is working to rewrite the youth information network system for reporting and analyzing youth offenses.

The Planning and Research Bureau maintains the Montana Uniform Reporting Program and a law enforcement inventory of manpower and equipment for all law enforcement agencies in the state. It also acts as a support activity for the Board of Crime Control and local law enforcement agencies, providing research and statistical analysis studies as requested, and making on-site assist visits to local agencies, for services such as jail planning and agency or consolidation planning.

The Peace Officers' Standards and Training (P.O.S.T.) Bureau develops standards for the selection and training of peace officers, including highway patrolmen, deputy sheriffs, undersheriffs, city police officers, fish and game officers, campus police, and airport police. The bureau reviews requests and makes recommendations for certification of peace officers, is developing physical ability standards and tests, and provides technical assistance to local law enforcement agencies.

The Grant Administration Bureau provides accounting and administrative support to the other bureaus and provides financial administration for federal grant programs, including formal grant requests, reporting, fiscal review, audit, and assist of grant recipients.

The legislature does not appropriate the MBCC by the individual bureaus. If the fiscal 1987 budget is allocated on the same percentage basis as the fiscal 1986 budget, the four bureaus would be budgeted as shown in table 2.

Table 2
Fiscal 1987 Source of Funding
(MBCC)

Bureau	General Fund	Federal Funds	Total
P.O.S.T.	$ 60,072	-0-	$ 60,072
Grant Administration	278,969	-0-	278,969
Planning and Research	101,485	-0-	101,485
Juvenile Justice	63,150	$82,500	145,650
TOTAL	$503,676	$82,500	$586,176

Federal funds of $82,500 in each fiscal 1986 and 1987 are for administration of juvenile justice planning and operation of the juvenile probation information system, which provides management information to youth courts. These funds come from the federal Department of Justice and are in addition to the federal pass-through funds listed in table 1.

The FTE increase from the 1985 biennium to the 1987 biennium is due to the transfer of the Juvenile Justice Training Program to the Board of Crime Control from the Law Enforcement Academy. The transfer of this 1 FTE and operating expenses increased the general fund budget by $48,177 in fiscal 1986 and $48,588 in fiscal 1987. It was determined the program would operate more efficiently under the Board of Crime Control than under the Law Enforcement Academy.

ISSUE 1: JUVENILE JUSTICE TRAINING

The Juvenile Justice Training Program was under the Law Enforcement Academy for six years prior to fiscal 1986, but was considered to be ineffective, having neither received the proper emphasis nor developed into a viable program. When the Juvenile Justice Training Program was transferred from the Law Enforcement Academy to the Montana Board of Crime Control (MBCC), the decision was made to reorganize the program to better suit the training needs of the agencies serving Montana's troubled youth. The major goal of the program is to promote policy that will improve the productivity and awareness of juvenile justice personnel by providing professionals (judges, attorneys, law enforcement officers, juvenile probation officers and residential child care workers) with education and current information about the juvenile justice system. A survey was made of those agencies involved in juvenile justice requesting information as to what training was needed. The surveys have been returned and compiled, and a curriculum is currently being developed.

The program as of March 24, 1986 was still in the basic stage of organizing work shops and training courses, with a few offerings of those activities in April, May,

and June of 1986. It is anticipated that a full slate of programs will not be offered until fiscal 1987. Table 3 shows the legislative approved budget for the Juvenile Justice Training Program for fiscal 1987.

Table 3
Juvenile Justice Training Budget Fiscal 1987

Personal Services	$23,740
Operating Expenses	
Contract Services	12,352
Supplies and Materials	1,397
Communications	898
Travel	10,047
Other	154
TOTAL	$48,588

Included in the budget for fiscal 1987 is $12,000 for consultant fees and $2,500 for consultant travel for advanced training courses.

Since the Juvenile Justice Training Program has not been an effective program for several years and has not been fully instituted since its transfer from the Law Enforcement Academy, the legislature may want to put the program on hold for fiscal 1987 and re-examine the program in terms of funding priorities with other programs during the 1987 legislative session, saving $48,588 in fiscal 1987. Or, in order to maintain continuity of the Juvenile Justice Training Program, the legislature may want to reduce only the consultant fees and travel for the advanced training courses and allow the basic instructional course to continue into fiscal 1987. This would save the general fund $14,500 in fiscal 1987.

Option A: Put the Juvenile Justice Training Program on hold for fiscal 1987. This will save $48,588 in general fund in fiscal 1987.

Option B: Reduce consultant fees and consultant travel for the advanced training courses. This will save $14,500 of general fund in fiscal 1987.

Option C: Take no action.

ISSUE 2: MONTANA UNIFORM CRIME REPORTING SYSTEM

The goal of the Montana Uniform Crime Reporting (MUCR) System is to reduce crime by identifying and targeting where crime control emphasis, training, and funding is needed, and to increase public awareness as to types of crimes occurring, potential for victimization, and opportunities for defensive action. It is a computerized system which takes raw crime data supplied by the local law enforcement agencies and produces output reports which are then used by the local law enforcement agencies for crime prevention, manpower planning, and budgeting purposes. The output data is also supplied to the federal Department of Justice for National Crime Statistics. At the state level, the data is used in the determination of Law Enforcement Academy curriculum needs and in setting peace officer standards and certification requirements. The state also uses the data to determine projected prison population needs and court workload projections, to identify and warn the public of potential risks of victimization, for development of programs such as Crimestoppers, and for various other programs and needs. However, the role of the state is predominantly that of a service provider. The data provided is primarily used by local law enforcement agencies and to a lesser extent by the federal government.

Prior to 1968 the local law enforcement agencies either did not provide crime statistics, or if they did report to the federal government it was not done on a uniform basis. Upon passage of the Crime Control and Safe Streets Act of 1968 the MBCC instituted a uniform reporting system now used by most local law enforcement agencies. The program was supported by federal funds provided by the Law Enforcement Assistance Administration (LEAA). When the LEAA was disbanded at the end of fiscal 1983, the legislature continued the program with general funds. There is no requirement on either the state or federal level that the information be supplied to either government.

Since there is no requirement by either the state or federal governments mandating that the information be compiled by the state and provided to the local law en-

forcement agencies or to the federal government, the legislature may want to eliminate the general fund support for this program and allow the program to continue on fees charged to the local users, if they are willing to support the program. This will save the general fund $65,000 a year. This savings could be carried into the 1989 biennium.

Approximately $20,000 of the $65,000 budget is used for key punching the raw data into the system. Starting July 1, 1986, local agencies will have the capability to input the raw data into the system, as the MUCR System is being tied to the existing Criminal Justice Reporting Network, which most local law enforcement agencies already have in place. This will save $20,000 of general fund in fiscal 1987 and the legislature could consider retaining the program but reducing the 1987 budget by $20,000.

Option A: Reduce the MUCR system by $65,000 and require the users to support the system if they desire to maintain it.

Option B: Reduce the key punch budget by $20,000.

Option C: Take no action.

ISSUE 3: 2 PERCENT CUTS

The MBCC budget was reduced by $9,987 for the 2 percent cuts in fiscal 1986. The cuts included vacancy savings, travel and other operating expenses. A 2 percent cut in fiscal 1987 would total $10,074. However, if the legislature maximizes the reductions in Issues 1 and 2, $2,271 of the 2 percent cuts will already be made. Therefore, only $7,803 would be unduplicated cuts for fiscal 1987. Table 4 shows the application of 2 percent cuts in fiscal 1987.

Table 4
Application of 2 Percent Cuts to Fiscal 1987
Montana Board of Crime Control

Expenditures	Fiscal 1987	2% Cuts	Revised Fiscal 1987
Personal Services	$418,879	-0-	$418,879
Operating	167,297	$10,074	157,223
TOTAL	$586,176	$10,074	$576,102
Funding			
General Fund	$503,676	$10,074	$493,602
Federal Fund	82,500	-0-	82,500
TOTAL	$586,176	$10,074	$576,102

Option A: Reduce the fiscal 1987 general fund by $10,074.

Option B: Reduce the fiscal 1987 general fund by $7,803.

Option C: Take no action.

DEPARTMENT OF REVENUE

Budget Items	Fiscal 1987 House Bill 500	Fiscal 1987 Governor's Budget	Difference
F.T.E.	798.47	777.97	20.5
Personal Service	$16,212,097	$15,765,097	$447,000
Operating Expense	4,317,507	3,855,888	461,619
Equipment	182,609	162,773	19,836
Total Operating Costs	$20,712,213	$19,783,758	$928,455
Non-Operating Costs	160,000	160,000	-0-
Total Expenditures	$20,872,213	$19,943,758	$928,455
General Fund	$17,763,739	$16,913,614	$850,125
State Special	915,168	869,410	45,758
Federal Revenue	1,541,867	1,541,867	-0-
Proprietary	651,439	618,867	32,572
Total Funding	$20,872,213	$19,943,758	$928,455

ISSUES IN GOVERNOR'S BUDGET - Fiscal 1987	General Fund	Other Funds
Gov. 1. 5 Percent Cut		
A. Director's Office	$ (29,700)	$ -0-
B. Centralized Services	(54,400)	-0-
C. Research and Information	(44,900)	-0-
D. Legal	(12,628)	(32,572)
E. Income Tax	(139,700)	-0-
F. Natural Resource and Corporation Tax	(29,000)	-0-
G. Property Assessment	(478,080)	-0-
H. Miscellaneous Tax	(59,362)	(8,838)
I. Motor Fuels	-0-	(36,920)
Subtotal	$(847,770)	$(78,330)
Adjustment[1]	(2,355)	-0-
Total Executive Reduction	$(850,125)	$(78,330)
Gov. 2. Liquor System Reduction	N/A	N/A

[1]Documentation supplied by the department does not equal the 5 percent general fund reduction in the executive budget.

ISSUE GOV. 1: 5 PERCENT CUT

The 5 percent cuts are discussed by program.

Director's Office -- $29,700

Vacancy savings will be generated by continuing to leave a .5 FTE training officer position and a 1.0 FTE secretary position vacant for the entire fiscal year and reducing operating expenses paid to Department of Administration proprietary fund accounts.

Centralized Services -- $54,400

Vacancy savings will be generated by holding a 1.0 FTE accounting position and a 1.0 FTE payroll specialist position vacant for the entire fiscal year and reducing operating expenses paid to Department of Administration proprietary fund accounts.

Research and Information -- $44,900

Vacancy savings will be generated by eliminating 1 FTE and reducing operating expenses paid to Department of Administration proprietary fund accounts. This position performs administrative and computer operating functions which can be reassigned to other division staff functions without major disruption in the Operations Bureau.

Legal -- $45,200

Reductions will be achieved by forcing vacancy savings and/or eliminating positions in all areas of the division. As positions become vacant they will be left unfilled longer than normal or permanently in order to generate a $40,300 savings. An additional $4,900 will be obtained through expenditure reductions paid to Department of Administration proprietary fund accounts.

Income Tax -- $139,700

Contracted services can be substantially reduced as a result of lower than anticipated computer processing rates, efficiencies gained due to the implementation of the Short Form Return, and 38 percent fewer refund notifications than originally projected. The remaining reductions will come as a result of reducing administrative travel,

eliminating equipment purchases, and reducing operating expenses paid to Department of Administration proprietary fund accounts.

Natural Resource and Corporation Tax -- $29,000

The reductions proposed are primarily in audit travel with $4,000 in expenditure reductions to proprietary fund accounts. The department says it is possible to make these reductions by:

- increasing efforts to prioritize all audits and conduct only those audits in fiscal 1987 which have the highest priority,
- obtaining statute waivers to extend the statute of limitations on tax audits,
- conducting as much audit work as possible in the office, and
- reducing or eliminating administrative travel.

Travel expenses can be reduced by $25,000 and still remain at the fiscal 1986 level of audit activity.

Property Assessment -- $478,080

Vacancy savings of $214,400 will be generated by eliminating 15 county FTE positions. This reduction will be made possible through reorganization at the county level which will reduce duplication of effort between the assessors and appraisers' offices.

The remaining $263,680 of savings will be generated by reducing expenditure to Department of Administration proprietary funds and significantly reducing data processing expenditures which support the assessment process.

Miscellaneous Tax -- $68,200

Vacancy savings will be generated by redistributing various administrative functions within the division, holding positions vacant, and reducing expenditures to Department of Administration proprietary accounts.

Motor Fuels Tax -- $36,920

Vacancy savings will be generated by holding 1 FTE field audit position open for the entire fiscal year. Additional savings are generated by not purchasing a new vehicle for field audit staff, reducing audit travel, and reducing expenditures to Department of Administration proprietary accounts.

ISSUE GOV. 2: LIQUOR SYSTEM REDUCTION

The executive proposes to increase profits returned to the general fund by the Liquor Division through reductions in operating expenses. The proposal would close two liquor stores, reduce commissions paid to agency stores from the current 10 percent to 8 percent, and revise the pricing structure for liquor. The department estimates the total increased profits to be $1,085,000.

Two stores would be closed saving $129,000 in fiscal 1987. Reduced commissions would effect 81 agency stores and would save $156,000. Revising the pricing structure would generate $800,000.

DEPARTMENT OF REVENUE

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	761.35	759.97	820.80	798.47	38.5
Personal Service	$15,253,607	$16,530,930	$17,036,334	$17,114,356	3.5
Operating Expense	3,297,860	3,397,859	4,451,674	4,317,508	27.1
Equipment	628,703	270,630	555,512	182,608	(32.5)
Total Operating Costs	$19,180,170	$20,199,419	$22,043,520	$21,614,472	7.0
Non-Operating Costs	111,119	94,580	155,000	160,000	69.2
Total Expenditures	$19,291,289	$20,293,999	$22,198,520	$21,774,472	7.3
Fund Source					
General Fund	$16,828,429	$17,818,180	$18,938,479	$18,553,923	4.1
State Special	781,567	788,513	971,858	950,103	20.5
Federal Revenue	1,093,800	1,127,993	1,594,794	1,593,096	41.2
Proprietary	587,493	559,313	693,389	677,350	21.1
Total Funds	$19,291,289	$20,293,999	$22,198,520	$21,774,472	7.3

ISSUES - Fiscal 1987	General Fund	Other Funds
1. County Assessor's Salaries	$(1,861,000)	-0-
2. Travel	$(50,000)	-0-
3. Operating Expenses	$(135,278)	-0-
4. 2 Percent Cuts		
Option A.	$(371,076)	-0-
Option B.	$(331,698)	-0-

The Department of Revenue administers a body of revenue producing statutes. Specifically, it: (1) administers tax law to assure that each taxpayer pays the proper tax due; (2) collects taxes and debts due the state; (3) administers the system governing the sale and distribution of liquor within the guidelines set by the legislature, providing an acceptable level of service to the public while maintaining the required degree of control; (4) enforces the obligation of parents to support their children; (5) investigates instances of welfare and medicaid fraud and prepares cases for

prosecution to provide a maximum deterrent effect; and (6) oversees the state-wide appraisal of real property.

FTE increases 38.5 from fiscal 1985 to fiscal 1987. Table 1 shows the increase in FTE by program.

Table 1
FTE Increase by Program Fiscal 1985 to Fiscal 1987

Program	1985 FTE	1987 FTE	Increase
Directors Office	7.50	7.50	-0-
Centralized Services	37.27	37.27	-0-
Research & Information	49.50	51.50	2.0
Legal	68.50	81.50	13.0
Liquor	0.00	0.00	-0-
Income Tax	75.15	95.15	20.0
Natural Resources & Corp. Tax	31.66	37.66	6.0
Miscellaneous Tax	19.32	19.32	-0-
Motor Fuel Tax	29.67	27.17	(2.5)
Property Assessment	441.40	441.40	-0-
Total Agency	759.97	798.47	38.5

The Research and Information Program received two data entry positions to process state tax returns and property appraisal forms.

Thirteen FTE were added to the Child Support Enforcement Bureau in the legal program to provide staff to meet the requirements of federal legislation. The total cost of these FTE in fiscal 1987 is $279,556, split 70 percent federal funds and 30 percent general fund. In August 1984, HR 4325, the "Child Support Enforcement Amendments of 1984" was passed by Congress. This bill:

1. Mandates program activity in child and spousal support areas regardless of public assistance receipt.

2. Places the responsibility for interstate enforcement on the Child Support Enforcement Program (CSEP).

3. Requires the use of several new tools:
   a. mandatory wage assignments for in- and out-of-state obligors,
   b. state tax offsets for in- and out-of-state applicants,

c. federal tax offsets for all applicants who have a Montana order or where the custodial parent is receiving assistance in Montana,
d. expedites processes to establish support orders for in and out-of-state orders.

These requirements will result in a substantial caseload increase for the Montana Child Support Enforcement Program. Estimates of the increased caseload are based on current caseload figures, increased use of a more effective and efficient collection system, and experiences of other states.

Income tax program staff increases of 20.0 FTE included the following:

1. 5.5 FTE systems development positions were added to develop a system for cross-matching of W-2's. The department estimated state revenue collections will increase $1 million in fiscal 1987 and $5.8 million by fiscal 1988 as a result of this program.

2. 6.0 FTE were added to the audit staff. The department estimated the increased staff can generate $3.8 million in additional revenue in the 1987 biennium.

3. 8.5 FTE were added to the collection staff. The department estimated that $4.8 million in additional revenue will be collected in the 1987 biennium from this staff.

The Natural Resources and Corporation tax added the following:

1. Two additional auditors to expand the audit program to include more companies and to cover the additional workload created by new legislation relating to windfall profit adjustments. It is anticipated that the auditors will collect $1.3 million in revenue each year of the biennium.

2. One royalties auditor for the Department of State Lands. It is anticipated that the audit would return a minimum of $600,000 to the school foundation fund each year.

3. Three federal mineral royalty auditors. It is anticipated that collections from the three auditors will be $500,000 each year of the biennium. The school equalization account receives 62.5 percent and the highway state special revenue account receives 37.5 percent of the funds received by the state from these audits.

The 1983 legislature added 3.5 FTE in fiscal 1985 above current level in the motor fuels tax program in anticipation of increased workload. Since the workload did not increase as anticipated, 2.5 FTE were deleted for the 1987 biennium.

The general fund shows an increase of $735,743, or 4.1 percent between fiscal 1985 and 1987. In addition to the pay plan and inflation, major additions to the general fund include the following.

1. In the Income Tax Division, $38,700 for postage and $62,500 for printing were added to allow the division to comply with federal law concerning the preparing and mailing of information returns to taxpayers who receive state refunds.

2. Travel increases $44,000 for an anticipated increase in audit travel in the Natural Resource and Corporation Tax Division.

3. Computer processing was increased $23,670 for the net and gross proceeds computer system in the Natural Resource and Corporation Tax Division.

4. Dues to the Multistate Tax Commission increased by approximately $22,000 in the Natural Resource and Corporation Tax Division.

5. Operating expenses in the Property Assessment Division increase $321,000, primarily as a result of anticipated appeals of property valuations and start up costs for the next appraisal cycle.

Decreases in the general fund consist of the following.

1. Personal services decrease by $1,026,000 in the Property Assessment Division before the pay plan is added due to a decrease in county assessor salaries of $326,100, a difference in vacancy savings of approximately $698,000, and a reduction in outside legal counsel.

2. Legal fees in the Director's Office decrease by $14,100.

3. Equipment in the Research and Information Program was decreased by $35,120.

4. Equipment in the Property Assessment Division was decreased by $110,439.

The state special revenue fund increases $161,590, or 20.5 percent. Major increases are as follows.

1. Director's Office was increased $25,700 for increased administrative support of the Motor Fuels Tax Division.

2. Natural resources and corporation tax increased $38,500 for one FTE royalties tax auditor.

3. Motor fuels tax increased by $64,700. Personal services increase $25,552 over the 1985 expenditures, because of vacancy savings in fiscal 1985. The legislature added $30,000 for data processing fees of the fuel tax collection system, which will be automated by fiscal 1987. Equipment expenditure increases by $9,100 due to the authorization of a new car in fiscal 1987.

4. The pay plan added $34,935 in fiscal 1987.

Federal special revenue increased by $465,103, or 41.2 percent. Major increases are as follows.

1. The pay plan of $51,299 was added.

2. Natural Resource and Corporation Tax Division increased $117,141 for two federal mineral royalty auditors.

3. The Legal Division increased a total of $322,582. Thirteen FTE were added at a cost of $195,689, non operating costs increased $66,228, and other operating costs increased by approximately $57,600.

4. The Research and Information Division decreased $24,850, as programming was completed on the new child support data processing system.

The proprietary fund increased $118,037, or 21.1 percent. The major change was the Legal Division increase of $118,321 for increased efforts in liquor license investigations and liquor law enforcement.

ISSUE 1: ASSESSOR'S SALARIES

The Property Assessment Division is responsible for the evaluation of real and personal property for the purpose of taxation. In fiscal 1987, the division was authorized 441.4 FTE and $10,315,236 of general fund to perform its functions. Included in the appropriation is $1,861,000 for 55 county assessor's salaries and 54 deputy county assessor's salaries. The balance of the $8,454,236 funds the costs of those appraisal responsibilities required of the department by Montana statute. Generally, those costs are: 1) county appraisal staff and operating expenses, 2) operating expenses and equipment for assessor offices, 3) staff and operating expenses for centrally assessed property, and 4) administrative staff to supervise property appraisal.

County assessors and their deputies are not state employees. Section 7-4-2203(1)(i), MCA, states that county assessors are officers of the county who may be elected or appointed. The county governing bodies fix the county assessors' and deputy assessors' salaries (Section 7-4-2504, and 7-4-2505, MCA). Section 7-4-2401, MCA, gives county assessors the right to appoint deputy assessors.

Section 15-8-102, MCA, states in part;

> . . . The county assessors of the various counties of the state are agents of the Department of Revenue for the purpose of locating and providing the department a description of all taxable property within the county, together with other pertinent information, and for the purpose of performing such other administrative duties as are required for placing taxable property on

the assessment rolls. The assessors shall perform such other duties as are required by law, not in conflict with the provisions of this subsection.

Although county assessors are agents of the state for certain functions, they perform those functions under the guidelines of state law and not the supervision of the Department of Revenue. In an informal opinion dated November 26, 1985, the Attorney General, in response to a question asking whether counties are required to fund that portion of the county assessor's salary which the state does not fund, stated that, "The state statutes and constitution are silent as to which governmental entity is to fund assessors' salaries." He also stated that "There is no legal requirement that the state fund the salaries of county assessors, even though the assessors act as state agents for certain purposes."

Table 2 shows those entities that benefit from the Property Assessment Division efforts and the property taxes billed for public service by those entities in fiscal 1986.

Table 2
*Property Taxes Billed for Public Services by
Government Entity in Fiscal 1986

Government Entity	Property Taxes Billed	Percent of Total
State Property Taxes	$ 16,272,324	2.9
County Purpose Taxes	122,882,468	21.5
City and Town Taxes	69,932,784	12.2
Public School Taxes	331,390,490	57.9
Miscellaneous (Counties and Cities)	31,568,871	5.5
Total	$572,046,937	100.0

*Source - Montana Tax Foundation, Inc., Montana Taxation 1986

The state receives 2.9 percent of all property taxes billed. In fiscal 1986, the university levy accounted for $14,205,641 of the total and the livestock levy accounted for the balance of $2,066,683.

There is no legal requirement that the state fund the salaries of county assessors, even though the assessors act as state agents for certain purposes. County assessors and their deputies are officers of the county, not state employees, and are not supervised by the Department of Revenue. The major benefits of property appraisal accrue to schools, counties, and cities. The legislature may want to reduce the personal service of the Property Assessment Division by $1,861,000.

Option A: Reduce personal services for a general fund savings of $1,861,000.

Option B: Take no action.

ISSUE 2: TRAVEL

The Natural Resources and Tax Division has a general fund appropriation for travel of $173,267. Table 3 shows the legislative authorized general fund travel budget for the division for fiscal 1983 through fiscal 1987.

Table 3
Natural Resources and Corporation General Fund Travel Budget
Fiscal 1983 through 1987

	Fiscal 1983	Fiscal 1984	Fiscal 1985	Fiscal 1986	Fiscal 1987
Budget	$109,603	$165,216	$238,344	$170,000	$173,267
Expenditures	83,826	123,785	190,690	120,290[1]	unknown
Balance	$ 25,777	$ 41,431	$ 47,654	$ 49,710	unknown
General Fund Reversion	$ 1,685	$ 25,071	$ 10,397	unknown	unknown

[1] Projected at current rate of expenditure.

In the 1983 session the legislature granted the division an increase of $47,000 over current level for out-of-state travel for an anticipated increase in audit activity out-of-state. The 1985 legislature granted an increase of $31,828 for the same reason for fiscal 1986 and fiscal 1987. Anticipated expenditures have not materialized from fiscal 1983 to fiscal 1985. However, the division has not reverted the excess travel

funds. Out of the excess travel funds of $114,862 from fiscal 1983 through fiscal 1985 only $37,153, or 32 percent, has been reverted. To ensure that the funds are used only for the intended purpose, the legislature may want to reduce the travel budget by $50,000. This would leave a travel budget that is representative of prior years expenditures.

Option A: Reduce the travel budget by $50,000 in general fund.

Option B: Line item the travel budget.

Option C: Take no action.

ISSUE 3: OPERATING EXPENSES

The 1985 legislature granted the Income Tax Division operating expenses above current level for data processing and for postage for mailing out information returns to those taxpayers receiving state refunds. The increase in postage was given to comply with federal law requiring such returns. Table 4 shows the categories in which increases were granted.

Table 4
Increases in Operating Expenses - Income Tax Division
Fiscal 1986 and 1987

Category	Data Processing	Postage	Total
	Fiscal 1986		
Current Level	$161,835	$91,013	$252,848
FY 86 Increase[1]	94,057	43,600	137,657
Total Budget FY 1986	$255,892	$134,613	$390,505
	Fiscal 1987		
Current Level	$161,835	$ 91,013	$252,848
FY 87 Increase[1]	133,657	43,600	177,257
Total Budget FY 1987	$295,492	$134,613	$430,105

[1]Does not include inflation

Table 5 shows projected expenditures and the remaining balance for the two categories for fiscal 1986.

Table 5
Projected Expenditures and Balances
Fiscal 1986

Category	Data Processing	Postage	Total
Budget	$255,892	$134,613	$390,505
Projected Expenditure	164,230	130,597	294,827
Balance	$ 91,662	$ 4,016	$ 95,678

The budget appropriation for the two categories (table 4) in fiscal 1987 is $430,105 net of inflation. If fiscal 1987 expenditures are held at the 1986 level of $294,827, the appropriation of $430,105 could be reduced by $135,278.

Option A: Reduce the general fund by $135,278.

Option B: Take no action.

ISSUE 4: 2 PERCENT CUTS

In response to the Governor's request for 2 percent cuts in fiscal 1986, the department reduced its general fund budget by $387,135. Personal services were reduced by $135,800 and operating expenses by $251,335. Operating expense reductions included: 1) travel of $48,300, 2) contract services of $193,035, and 3) supply and materials of $10,000. A similar 2 percent reduction in fiscal 1987 would total $371,076, as shown in table 6.

Table 6
Application of 2 Percent Cuts to Fiscal 1987

Expenditures	Fiscal 1987	2% Cuts	Revised Fiscal 1987
Personal Service	$17,114,356	$130,248	$16,984,108
Operating Expense	4,500,116	240,828	4,259,288
Total	$21,614,472	$371,076	$21,243,396
Funding			
General Fund	$18,553,923	$371,076	$18,182,847
State Special	950,103	-0-	950,103
Federal & Other	2,110,446	-0-	2,110,446
Total	$21,614,472	$371,076	$21,243,396

Option A: Reduce the fiscal 1987 general fund by $371,076.

Option B: Reduce the fiscal 1987 general fund by $331,698.

Option C: Take no action.

DEPARTMENT OF ADMINISTRATION

Budget Items	Fiscal 1987 House Bill 500	Fiscal 1987 Governor's Budget	Difference
F.T.E.	392.59	392.59	0.00
Personal Service	$ 9,861,163	$ 9,766,055	$ 95,108
Operating Expense	21,288,827	20,163,463	1,125,364
Equipment	1,904,660	1,734,380	170,280
Total Operating Costs	$33,054,650	$31,663,898	$1,390,752
Non-Operating Costs	2,483,471	2,475,698	7,773
Total Expenditures	$35,538,121	$34,139,596	$1,398,525
General Fund	$ 3,849,255	$ 3,656,792	$ 192,463
State Special	896,319	882,821	13,498
Capital Projects Fund	589,578	589,578	-0-
Proprietary	30,202,969	29,010,405	1,192,564
Total Funding	$35,538,121	$34,139,596	$1,398,525

ISSUES IN GOVERNOR'S BUDGET	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
Gov. 1. 5 Percent Cut		
A. Central Administration	$ (1,213)	$ -0-
B. Accounting	(42,246)	-0-
C. Architecture & Engineering	-0-	13,329
D. Publications & Graphics	-0-	(168,912)
E. Information Systems	-0-	(567,838)
F. General Services	(45,784)	(96,028)
G. Central Stores	-0-	(162,387)
H. Purchasing	(65,643)	-0-
I. Central Services/Treasury	(1,444)	(1,381)
J. Investments	-0-	(41,200)
K. State Personnel	(21,358)	(14,368)
L. Tort Claims	-0-	(140,450)
M. Passenger Tramway	-0-	(988)
N. Workers' Compensation Judge	-0-	(25,839)
O. State Tax Appeal Board	(14,775)	-0-

ISSUE GOV. 1: 5 PERCENT CUT

The general fund was reduced $192,463, or 5 percent. The budget documents supplied by the department listed what categories would be cut, but specific information as to what items in the budget category would be cut or the affect the

reductions would have on the department was not provided. General fund reductions were in the following programs:

1. Central Administration - $1,213 travel.
2. Accounting - $41,018 of contract services for data processing and $1,228 of travel.
3. General Services - $44,385 of operating expenses and $1,399 of transfers to fish, wildlife and parks for grounds maintenance.
4. Purchasing - $39,868 of personal services and $25,775 of operating expenses.
5. Central Services/Treasury - $1,444 of operating expenses.
6. Personnel - $8,536 of personal services and $12,822 of operating expenses.
7. State Tax Appeal Board - $5,775 of personal services and $9,000 of contract services.

Other funds were reduced a total of $1,206,062. Included in this total, however, is a request to increase the authority in the Architecture and Engineering Division by $13,329, consisting of an increase of $24,153 in personal services and a reduction of $10,824 in operating expenses. This request is to fund a position transferred from the Purchasing Division. The general fund in the Purchasing Division was reduced by $39,868 for this transfer.

Other fund reductions consist of the following:

1. Publications and Graphics - $162,784 goods purchased for resale and $6,128 equipment.
2. Information Services - $44,000 contract services, $338,710 communications, $25,000 goods purchased for resale, and $160,128 equipment.
3. General Services - $14,143 personal services, $75,511 operating expenses and $6,334 transfer to fish, wildlife and parks for grounds maintenance.
4. Central Store - $26,872 operating expenses and $135,515 goods purchased for resale.
5. Central Services/Treasury - $1,381 operating expenses.
6. Investments - $41,200 personal services.
7. Personnel - $14,368 operating expenses.
8. Tort Claims - $140,450 contract services.
9. Passenger Tramway Safety - $988 contract services.
10. Workers Compensation Judge - $9,739 personal services and $16,100 operating expenses.

DEPARTMENT OF ADMINISTRATION

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	407.84	384.59	386.34	392.59	8.0
Personal Service	$ 9,450,735	$ 9,493,399	$ 9,930,587	$10,339,066	8.9
Operating Expense	12,658,643	14,683,257	19,912,103	21,084,048	43.6
Equipment	1,377,134	1,915,502	2,328,316	2,112,671	10.3
Total Operating Costs	$23,486,512	$26,092,158	$32,171,006	$33,535,785	28.5
Non-Operating Costs	1,561,622	1,998,388	2,470,018	2,483,471	24.3
Total Expenditures	$25,048,134	$28,090,546	$34,641,024	$36,019,256	28.2
Fund Source					
General Fund	$ 4,032,020	$ 4,280,236	$ 3,875,449	$ 3,976,419	(7.1)
State Special	1,561,053	777,702	897,523	927,263	19.2
Other Funds/Appropriated	49,996	548,343	584,220	589,578	7.5
Proprietary	19,405,065	22,484,265	29,283,832	30,525,996	35.8
Total Funds	$25,048,134	$28,090,546	$34,641,024	$36,019,256	28.2

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. Funding Switch	$(387,841)	$387,841
2. GAAP Reporting	$(60,930)	$60,930
3. 2 Percent Reduction		
Option A.	$(79,528)	-0-
Option B.	$(70,553)	-0-

The Department of Administration provides services to state agencies in the areas of accounting, financial reporting, insurance, communications, data processing, personnel management and labor relations, purchasing, printing, mail and messenger services, and records management. The department also administers the Long-Range Building Program, State Employees Group Benefits Program, and various retirement programs.

Functions attached to the department for administrative purposes include the Board of Examiners, State Tax Appeals Board, Workers' Compensation Court, Board of Investments, Public Employees Retirement System, and Teachers' Retirement System.

FTE increase by 8.0. Table 1 shows the increases and decreases in FTE and the divisions involved.

Table 1
FTE Increases and Decreases by Division

Division	FTE 1985	FTE 1987	Increase (Decrease)
Architecture and Engineering	14.50	15.50	1.0
Publications and Graphics	30.75	31.75	1.0
Information Services	121.45	120.45	(1.0)
General Services	49.25	50.25	1.0
Property and Supply	12.50	17.00	4.5
Communications	15.39	16.39	1.0
Tort Claims	7.00	9.00	2.0
Personnel	39.00	37.50	(1.5)
Total	289.84	297.84	8.0

A 1.0 FTE secretary was added to the Architecture and Engineering Division to assist with an increase in workload. A 1.0 FTE printing coordinator was added to the Publications and Graphics Division to monitor printing by private contractors. A 1.0 FTE computer operator was deleted from the Information Services Division, as the Department of Justice now provides computer operators for the computer at the armory. General services added a .50 FTE architect and a .50 FTE maintenance worker to help in the design of remodeling projects and for the new Department of Natural Resources and Conservation building. Property and supply added 4.5 FTE to handle anticipated growth in the use of the bureau's goods and services by state agencies. Communications added a 1.0 FTE telecommunications analyst to provide technical support for the state's telephone network. The Tort Claims Division added 1.0 FTE

attorney and 1.0 FTE secretary to help with outstanding lawsuits and claims against the state. Personnel deleted a 1.0 FTE word processing operator and a .50 FTE personnel specialist.

The general fund decreases $303,817, or 7.1 percent. The major decreases consist of: 1) deleting 2.5 FTE, saving approximately $65,700; 2) reducing computer costs in the accounting division by approximately $44,000; 3) switching one-half of the purchasing division's administrators salary to the proprietary fund, saving approximately $20,500; 4) reducing one time equipment expenditures in the purchasing division by $51,000; 5) reducing general fund support of the General Services Division by $92,500; 6) reducing general fund for training programs by $32,800; 7) reducing general fund support of the Tort Claims Division by $58,750; 8) switching funding for the passenger tramway safety program to the state special revenue fund savings $19,753, and 9) reducing a one time appropriation to "Vision Quest" by $64,000. There was an increase in general fund for the pay-plan of $127,164.

The state special revenue fund increased by $149,561, or 19.2 percent. Personal services in the Architecture and Engineering Division increased by $34,600, due to $18,600 in vacancy savings in fiscal 1985 and $16,000 for the addition of 1.0 FTE secretary. Operating expenses in the Architecture and Engineering Division were increased by $8,713 for legal fees to pay the cost of an attorney who devotes one-third of his time to the division. Funding of $19,753 for the passenger tramway safety program was switched from the general fund to the state special revenue fund. The Workers' Compensation court was increased by $64,000, including vacancy savings of $10,000 and increased operating expenses of $38,700 for additional trial and pre-trial days. Inflation totals $6,500. The pay plan added $30,944 to the state special revenue fund in fiscal 1987.

Other funds are appropriated to the Architecture and Engineering and General Services Programs, and increase by $41,235, or 7.5 percent. The Architecture and Engineering Division's administrative costs are funded by a transfer of funds from the

long range building fund to the state special revenue fund. Since the Architecture and Engineering program received an increase in its administrative expenses, there was a need to increase the transfer from the long range building fund by $32,335. The General Services Division is funded partly by the capital projects fund for repairs to buildings in the capitol area. An increase in that fund of $8,900 was granted in fiscal 1987.

The proprietary fund increased by $8,041,731, or 35.8 percent. Increases were as follows:

1) $41,300 to add 1.0 FTE attorney in central administration;
2) $2,098,000 for pass through printing to private printers and $150,000 for new copiers for the copier pool in the Publications and Graphics program;
3) $934,000 for new equipment in the Information Services Program;
4) $212,220, mainly due to inflation increases for utilities of $206,711 in the General Services Program;
5) $1,346,000 in the Property and Supply Program. Items purchased for resale increased by $1,181,000 and 4.5 FTE at a cost of $93,135, new equipment of $60,000, and inflation of $10,900 were added;
6) $227,000, mainly as a result of a $218,000 inflationary and usage increase for postage, in the Mail and Distribution Program;
7) $1,756,000 in the Communications Program. Inflation increased by $730,000, lease participation certificates by $428,000, and spending authority to pay telephone bills for the university system by $598,000;
8) $909,282 in the Tort Claims Division. Two FTE at a cost of $63,282, insurance premium of $200,000 to cover the state in the event that claims paid in one year would exceed $2 million, and payments of $646,000 for outside legal fees, court costs, and travel costs was added; and
9) $323,027 for the pay plan.

ISSUE 1: FUNDING SWITCH

Two programs in the Department of Administration provide services primarily to the other programs within the department: central administration supervises and coordinates the activities of the various programs and the financial program within the Treasury Centralized Services Division handles the central budget and personnel functions for the department.

Central administration's staffing consists of the director of the department, 1.0 FTE deputy director, 2.0 FTE staff lawyers, 1.0 FTE management analyst, 1.0 FTE administrative officer, and 2.0 FTE secretaries. The financial program staffing consists of 1.0 FTE administrator, 1.75 FTE accounting technicians, 2.0 FTE accountants, 1.0 FTE personnel officer, 1.0 FTE personnel specialist, and 1.0 FTE secretary. Total costs for the two programs for fiscal 1987 is shown in table 2.

Table 2
Department of Administration Central Administration and Finance Programs
Fiscal 1987

Category	Central Administration	Finance	Total
FTE	8.0	7.75	15.75
Personal Services	$264,352	$214,632	$478,984
Operating Expense	28,678	28,049	56,727
Equipment	-0-	64	64
Total Expenses	$293,030	$242,745	$535,775
General Fund	$251,700	$242,745	$494,445
Proprietary Fund	41,330	-0-	41,330
Total Funding	$293,030	$242,745	$535,775

Except for one attorney position in central administration, funded through a proprietary account, all operating costs of both programs are general funded. However, the majority of the operations in the Department of Administration are funded by

other than general fund. Table 3 details the funding split of the department for fiscal 1987.

Table 3
Funding Split - Department of Administration
Fiscal 1987

Fund	Budget	Percent of Total
General Fund	$ 3,976,419	11.0
State Special	927,263	2.6
Proprietary	30,525,996	84.8
Other	589,578	1.6
Total Funding	$36,019,256	100.0

The Departments of Commerce, Labor, and Health charge the other funds within those agencies for the services provided by central administration and central service programs. Allocating costs of central administration and central services programs to other funds provides a better accounting of the costs associated with running the department.

There are two ways of charging expenses associated with delivering a service; direct and indirect costs. Direct costs refer to those costs that can be traced to a specific unit or activity. Indirect costs refer to those costs that cannot be specifically traced. The day to day activities of the central administration and financial programs are not specifically identified as to what other programs in the department receive the services provided. Therefore, the best approach would be through indirect costs. The Department of Commerce charges its indirect costs based on the personal services budgets of the other programs within the department.

The total general fund budget for central administration and the financial bureau for fiscal 1987 is $494,445. Charging the other programs in the department based on personal services costs would result in the cost allocation shown in table 4 on the following page.

Table 4
Cost Allocation Central Administration and Financial Bureau
Fiscal 1987

Program	Allocation of Costs
Accounting	$ 16,317
Architecture and Engineering	22,745
Publications and Graphics	37,083
Information Systems	162,178
General Services	54,389
Property and Supply	19,283
Purchasing	20,272
Mail and Distribution	8,406
Treasury	10,383
Investments	30,656
Communications	24,228
Personnel	39,556
Group Benefits	6,922
Training	4,450
Tort Claims	14,833
Workers Compensation	12,361
State Tax Appeals Board	10,383
Total	$494,445

Savings would occur only in those programs not funded by the general fund. Table 5 shows the general fund savings.

Table 5
General Fund Savings Under Cost Allocation Proposal

Total Costs Allocated		$494,445
Less: Allocation to General Fund Programs		
Accounting	$16,317	
General Services	8,653	
Purchasing	19,283	
Treasury	10,383	
Personnel	39,556	
Group Benefits	984	
Training	1,045	
State Tax Appeals Board	10,383	
		106,604
Total General Fund Savings		$387,841

Option A: Reduce general fund by $387,841 in Central Administration and Financial Bureau and increase the other funds by $387,841 in the other programs within the department. Total general fund savings is $387,841.

Option B: Take no action. some other method of allocation

ISSUE 2: GAAP REPORTING

The 1981 legislature authorized the upgrading of three positions in the Accounting Division to help implement generally accepted accounting principles (GAAP) on a statewide basis. The upgrades were authorized to enable the division to hire qualified accountants to advise state agencies on proper GAAP accounting, modify the statewide budgeting and accounting system to GAAP, and prepare the state's annual financial report in accordance with GAAP. The Accounting Division stressed that the state needed to be in compliance with GAAP, as bond rating firms had indicated that states not in compliance with GAAP would possibly see their bond ratings lowered. The state's annual financial report for the periods ending 6/30/84 and 6/30/85 were prepared in accordance with GAAP and were issued an unqualified audit opinion from the Legislative Auditor utilizing the statewide audit concept.

The cost of GAAP accounting and reporting is currently paid 100 percent by the general fund. The 1985 legislature determined that other agencies benefited from the statewide audit by the Legislative Auditor of the state's financial report and reduced the general fund costs of the audit by 59 percent, reallocating those costs to those benefiting agencies. The legislators may want to treat the costs associated with GAAP reporting in the Accounting Division in a similar fashion. Table 6 on the following page shows the cost of GAAP reporting and accounting in the Accounting Division.

Table 6
Cost of GAAP Reporting and Accounting
for Fiscal 1987

FTE	3.0
Personal Services	$85,981
Operating Expenses	17,290
Total Cost	$103,271

Applying the same percentage of benefit (59 percent) to the GAAP reporting and accounting function as the legislature did to the statewide audit function would save the general fund $60,930.

The other funds that receive the benefit are not currently funded for the charges. When the legislature switched the funding for the statewide audit, transfer authority was given to the budget office which allowed an increase in funds other than the general fund to help pay for the charges of the statewide audit. The legislature would have to grant similar transfer authority of $60,930 to those agencies which currently do not have appropriation authority to pay for the GAAP reporting benefits. The language would read as follows: The item shown in the proprietary fund column is appropriated each year of the biennium from nongeneral fund sources which the Office of Budget and Program Planning shall distribute, for the sole purpose of paying the Department of Administration's charges for the Montana Financial Report, to those agencies who derive a financial benefit from having the Montana Financial Report on GAAP.

Option A: Reduce the general fund by $60,930 and increase the other funds by a like amount. Include language requiring the Office of Budget and Program Planning to distribute to non-general fund sources who derive a benefit from the Montana Financial Report authority to pay the Department of Administration charges.

Option B: Take no action.

ISSUE 3: 2 PERCENT REDUCTION

In response to the Governor's request for a 2 percent reduction in the general fund, the department reduced personal services by $16,062 and operating expenses by $63,029. The Accounting Division reduced contract services by $16,000 and supplies and materials by $970. General Services Division reduced transfers to Fish, Wildlife, and Parks by $3,028, supplies and materials by $5,790, rent by $1,240, and repair and maintenance by $14,324. The Purchasing Division reduced contract services by $10,413. Central Services/Treasury Division reduced supplies and materials by $3,881. The Personnel Division reduced personal services by $16,062 and other expenses by $339. The Tramway Safety Program reduced contract services by $385. The State Tax Appeal Board reduced contract services by $4,739, communications by $660, and travel by $1,260. Applying the 2 percent reduction for fiscal 1987 would reduce the general fund by $79,528. Table 7 shows the application of the 2 percent cuts for fiscal 1987. If Option A of Issues 1 and 2 are adopted by the legislature the 2 percent reduction would be $70,553.

Table 7
Application of 2 Percent Cuts to Fiscal 1987

Expenditures	Fiscal 1987	2 Percent Cuts	Revised Fiscal 1987
Personal Services	$10,339,066	$13,243	$10,325,823
Operating	23,196,719	66,285	23,130,434
Total	$33,535,785	$79,528	$33,456,257
Funding			
General Fund	$3,976,419	$79,528	$3,896,891
State Special	927,263	-0-	927,263
Federal and Other	28,632,103	-0-	28,632,103
Total	$33,535,785	$79,528	$33,456,257

Option A: Reduce the fiscal 1987 general fund by $79,528.

Option B: Reduce the fiscal 1987 general fund by $70,553.

Option C: Take no action.

ISSUE GOV. 1: SOCIAL SECURITY INTEREST EARNINGS - $2,000,000

The executive is proposing to transfer a $2,000,000 cash balance from the social security contribution account to the general fund, and beginning in fiscal 1988, to transfer interest earnings from yearly contributions to the general fund. Annual interest earnings are estimated to be approximately $150,000 per year. However, the Governor proposes paying the cost of administering the social security program from the general fund in future years also. Beginning in fiscal 1988 an administrative charge would be assessed employers to pay for administering PERD. The charge would be based on the preceding year's expenditures and would not exceed two-tenths of 1 percent.

The legislature will have to amend Section 19-1-601, MCA, to allow the transfer of the $2,000,000 cash balance to the general fund.

PUBLIC EMPLOYEES RETIREMENT DIVISION

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	21.5	21.5	22.5	22.5	1.0
Personal Service	$461,962	$481,038	$518,211	$536,942	11.6
Operating Expense	284,734	227,590	319,437	275,021	20.8
Equipment	7,375	20,538	6,969	2,500	(87.8)
Total Expenditures	$754,071	$729,166	$844,617	$814,463	11.7
Fund Source					
Pension Trust	$754,071	$729,166	$844,617	$814,463	11.7

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
General Fund Revenue Transfer		
1. Transfer Social Security Fund - Reserve Balance	$2,000,000	-0-

The Public Employees Retirement Division (PERD) provides retirement, disability, and death benefits to the members and other beneficiaries of the game wardens, highway patrol, judges, public employees, sheriffs, state-wide police, unified firefighters, and volunteer firefighters of unincorporated areas retirement systems. Social security contributions from the state and various local government entities are also collected and disbursed.

Total expenditures increase by $85,297, or 11.7 percent. The increase in personal services from fiscal 1985 to fiscal 1987 results from two factors. First, 1.0 FTE assistant administrator at a cost of $31,275 was added by the 1985 legislature. Second, vacancy savings of $34,165 was experienced in fiscal 1985.

Major increases in operating expenses are $17,000 in legal fees to help pay for the cost of an attorney added to the Department of Administration's Central Office and $22,800 for data processing fees.

Equipment expenditures decrease as one-time data processing equipment was purchased in fiscal 1985.

ISSUE 1: TRANSFER CONTRIBUTION ACCOUNT FUND

Under the authority of Section 19-1-601, MCA, the Public Employees Retirement Division has a contribution account which is an agency fund for transferring the social security payments of government entities to the federal government. A balance sheet projection prepared by PERD on March 31, 1986 indicates that the reserve balance in that fund will total $2,059,613 at the end of fiscal 1986. The contribution account is being used at a rate faster than interest is being earned; therefore the reserve balance has decreased from $2,960,275 at the end of fiscal 1984 to the projected balance of $2,059,613 at the end of fiscal 1986.

Prior to January of 1980, the Public Employees Retirement Division transferred social security payments to the federal government on a quarterly basis. Funds in the account were invested. The interest earnings accrued to the state and were used to defray the administrative expenses of the Public Employees Retirement Division. In 1980, the federal government issued new regulations requiring that the state transfer the social security withholding on a semi-monthly basis, thus reducing the amount available for investment. The Public Employees Retirement Division estimates that interest income in fiscal 1987 will be $175,000. This income should be adequate to fund the expenses of administering the social security function of the Public Employees Retirement Division. Rather than use the interest earnings from the contribution account as anticipated by the 1985 legislature in the House Bill 500 appropriation, the division will, as allowed by Section 19-3-603(2), MCA, fund the balance of the administrative expenses of the Public Employees Retirement Division from the pension trust funds they administer. The Public Employees Retirement Division has indicated that they will request a change in statute during the June special legislative session to allow them to assess an administration charge, starting in

fiscal 1988, to employers to cover the costs of administering the various retirement systems. Since the administrative costs of the Public Employees Retirement Division will be paid out of the pension funds for fiscal 1987, the reserve balance in the contribution account would not be needed.

The legislature may want to consider transferring the reserve balance of $2,000,000 in the social security agency fund to the general fund. This would provide a one-time source of revenue to the general fund.

Option A: Transfer $2,000,000 from the social security contribution account to the general fund.

Option B: Take no action.

TEACHERS RETIREMENT BOARD

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	10.58	10.58	11.0	11.0	.42
Personal Service	$187,257	$215,126	$242,718	$250,474	16.4
Operating Expense	308,328	115,803	222,330	169,507	46.4
Equipment	2,013	15,541	1,248	-0-	100.0
Total Expenditures	$497,598	$346,470	$466,296	$419,981	-21.2
Fund Source					
Pension Trust Funds	$497,598	$346,470	$466,296	$419,981	-21.2

The Teachers Retirement Board provides retirement, disability, and survivor benefits for the state's teachers.

FTE increased by a .42 secretary at a cost of $9,500 to assist with the increasing workload. Other increases in personal services consist of vacancy savings of $15,000 in fiscal 1985 and pay plan of $13,162 in fiscal 1987. Attorney fees increase by $7,000 each year to pay one-fourth of the salary of an attorney at the Department of Administration. These services had previously been provided free of charge. Data processing costs increase by $52,000 for the operation of the computerized retirement system. Equipment costs decrease due to one-time cost of data processing equipment in fiscal 1985.

Funding for the Teachers Retirement Board is provided by interest earned on the funds held in trust by the Teachers Retirement System.

There are no issues for this agency.

DEPARTMENT OF MILITARY AFFAIRS

Budget Items	Fiscal 1987 House Bill 500	Fiscal 1987 Governor's Budget	Difference
F.T.E.	91.0	91.0	0.00
Personal Service	$1,989,104	$1,972,446	$16,658
Operating Expense	1,691,494	1,617,564	73,930
Equipment	6,898	3,898	3,000
Total Operating Costs	$3,687,496	$3,593,908	$93,588
Non-Operating Costs	2,280	2,280	-0-
Total Expenditures	$3,689,776	$3,596,188	$93,588
General Fund	$1,871,756	$1,778,168	$93,588
Federal Revenue	1,818,020	1,818,020	-0-
Total Funding	$3,689,776	$3,596,188	$93,588

ISSUES IN GOVERNOR'S BUDGET	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
Gov. 1. 5 Percent Cut		
A. Administration	$(4,808)	-0-
B. Army Guard	(51,302)	-0-
C. Air Guard	(3,000)	-0-
D. Veteran's Affairs	(23,334)	-0-
E. Disaster and Emergency Services	(11,144)	-0-

ISSUE GOV. 1: 5 PERCENT CUT

Information on the 5 percent reduction for each program follows.

Administration Program

Contract Services - $1,520. Janitorial Services will be reduced from five to three days per week and the commercial security service contract will be eliminated.

Travel - $1,000. Approximately one-third of the director's travel budget was reduced.

Repairs and Maintenance - $2,206. Building repairs will be reduced by one-half. Office equipment repairs and maintenance contracts for office equipment will be

reduced.

Other - $82. All magazine, trade, and newspaper subscriptions will be eliminated.

Army Guard Program

Contract Services - $4,611. Liability insurance on two department owned vehicles will be eliminated. Janitorial services will be reduced from five to three days per week. Printing done at the Publications and Graphics Division will be reduced by one-third.

Supplies and Materials - $3,861. The amount normally spent for tools, gasoline, and weed control will be eliminated.

Travel - $1,995.

Repairs and Maintenance - $34,685. Building repairs of $17,000 and painting will be eliminated. Repairs of office equipment are reduced by one-half.

Other - $3,150. The annual officer clothing allowance was reduced from $35 to $25.

Equipment - $3,000. The replacement of two secure radios was reduced by one-half.

Air Guard Program

Contract Services - $795. Janitorial services are reduced from five to three days per week.

Communications - $312. One phone in the Helena office of the Air National Guard is eliminated.

Repairs and Maintenance - $712. Building repair and maintenance will be reduced by $3,560. This is an 80 percent federal match program and to cut general fund dollars the department must also take cuts in the federal funds.

Other - $1,110. The officer clothing allowance was reduced from $35 to $25.

Travel - $71. In-state travel was reduced by $71.

Veterans' Affairs Division

Personal Services - $14,308. All field office clerical personnel will be reduced from 80 hours per pay period to 70 hours per pay period.

Contract Services - $9,026. The clerical contract with the VFW and DAV will be eliminated.

Disaster and Emergency Services

Personal Services - $2,350. A training officer III position will be left vacant.

Contract Services - $856. Janitorial services will be reduced from five to three days per week. Staff training will be reduced.

Travel - $4,332. In-state travel to assist local governments in disaster and emergency planning and out-of-state travel to conferences will be cut.

Other - $3,606. Supplies and materials for maps, charts, and reference material will be cut by $1,400. Communications equipment will be cut by $1,197. Repair and maintenance will be cut by $644. Registration fees for conferences will be cut by $365.

DEPARTMENT OF MILITARY AFFAIRS

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	80.75	81.50	91.00	91.00	9.50
Personal Service	$1,708,055	$1,827,864	$2,013,010	$2,097,888	14.8
Operating Expense	1,589,062	1,838,983	1,634,762	1,691,494	(8.0)
Equipment	145,343	19,109	37,900	6,898	(63.9)
Total Operating Costs	$3,442,460	$3,685,956	$3,685,672	$3,796,280	3.0
Non-Operating Costs	828,501	1,095,396	2,280	2,280	(99.8)
Total Expenditures	$4,270,961	$4,781,352	$3,687,952	$3,798,560	(20.6)
Fund Source					
General Fund	$1,949,617	$2,043,686	$1,856,401	$1,922,319	(5.9)
Federal Revenue	2,321,344	2,737,666	1,831,551	1,876,241	(31.5)
Total Funds	$4,270,961	$4,781,352	$3,687,952	$3,798,560	(20.6)

ISSUES - Fiscal 1987	General Fund	Other Funds
1. Veterans' Affairs		
Option A.	$(466,674)	-0-
Option B.	$(439,450)	-0-
Option C.	$(73,688)	-0-
2. Contract Services	$(9,958)	-0-
3. Fiscal Year 1987 Cuts	$(38,446)	-0-

The Department of Military Affairs oversees all activities of the Army National Guard and the Air Guard Programs, the Veterans' Affairs Program, and the Disaster and Emergency Services Division, which is responsible for the preparation, update, coordination, and testing of all state emergency preparedness, response, and recovery plans. The division is also responsible for radiological defense efforts and calibration and maintenance of radiological instruments.

There are two major reasons for the 5.9 percent decrease in general fund: 1) because of a reallocation of insurance costs by the Department of Administration,

insurance in the army guard program decreases by $66,307, and 2) utilities decrease in the army and air guard programs by $31,131.

Federal revenue decreases by 31.5 percent. There are two factors that comprise this decrease: 1) 11 FTE security guards were approved for additional security at the air guard base in Great Falls at a cost of $177,995, and 2) non-operating costs of $1,093,116 in fiscal 1985 were statutorily appropriated in the 1987 biennium. These funds were passed through the Disaster and Emergency Services Division for civil defense reimbursements and disaster relief payments to local governments. Since these funds are statutorily appropriated the appropriations do not show in fiscal 1987. If the pass through funds were not shown in fiscal 1985 federal funds would have a $231,691 increase, or 14.1 percent.

ISSUE 1: VETERANS' AFFAIRS PROGRAM REDUCTION

The function of the Veterans' Affairs Division is to provide a state-wide service to assist discharged veterans and their families in filing claims, to cooperate with state and federal agencies having to do with the affairs of veterans and their families, and to promote the general welfare of veterans and their families. Assistance to veterans includes provision of information on veterans' benefits and with Veterans' Administration (VA) forms, guidance in completing these forms, and representations before regional VA appeals boards. The budget for the Veterans' Affairs Division for fiscal 1987 is shown in table 1.

Table 1
Fiscal 1987 Budget - Veterans' Affairs Division

FTE	18.5
Personal Service	$402,149
Operating Expense	
Contract Services	$ 12,027
Supplies and Materials	4,927
Communications	14,768
Travel	26,791
Rent	4,975
Repair and Maintenance	500
Other Expenses	537
Total Budget and General Fund	$466,674

During the 1979 legislative session the Board of Veterans' and the Veterans' Affairs Division were directed by the legislature to study alternatives for providing services to veterans that are more comprehensive and less expensive. The results of these studies were to be reported to the 1981 legislature. In fiscal 1982 the Veterans' Affairs Division reported to the Legislative Finance Committee that the research had been done and a better way to provide service had not been found. However, the division stated they had developed some workload factors that should show the effectiveness of the division in offering services to veterans.

The 1983 legislature transferred the Veterans' Affairs Division from the Department of Social and Rehabilitation Services to the Adjutant General's Office. In fiscal 1985 a new administrator of the division was appointed, who determined that using the workload factor developed in 1982 as a measuring tool was not effective. Subsequently, new factors of measurement have been instituted. The new factors are the number of transmittals prepared by the division for each type of benefit offered and the number of awards made by the federal Veterans' Administration based on those transmittals. Since there is approximately a five to six month time lapse from

submitting a transmittal to receiving an award, historical data on the new factors is not available for analysis.

Workload Statistics

Table 2 shows veterans contacted and claims awards for fiscal 1979 to fiscal 1985.

Table 2
Veterans Contacts and Claims Fiscal 1979 to 1984
(Agency Provided Information)

	Fiscal 1979	Fiscal 1980	Fiscal 1981	Fiscal 1982	Fiscal 1983	Fiscal 1984	Fiscal 1985[1]	% Change FY78-FY85
FTE	22.5	22.5	20.5	20.5	20.5	18.5	18.5	(17.8)
Contacts	51,894	47,080	44,690	31,924	29,745	34,991	---	(32.6)
Claims	8,165	7,359	6,081	2,934	2,512	2,765	---	(66.2)
Awards	$5,849,059	$5,882,870	$3,452,699	$4,518,538	$4,299,628	$4,796,267	---	(18.0)

[1] Because the pay plan was funded through vacancy savings in fiscal 1985 the division had to leave one position vacant. The position left vacant was the one that compiled the statistics. Therefore the information was not captured for fiscal 1985.

The table indicates that awards and claims have dropped off dramatically between fiscal 1979 and 1982 and have remained relatively stable since. From the contacts shown in the table, one-half are estimated to be unduplicated. Based on that estimate, 120,175 different veterans and dependents have been contacted since 1979. Of this number, 29,816 are indicated to have received claims. Most of these received claims in 1979, 1980, and 1981. It appears from the relative stability of claims in fiscal 1982, 1983, and 1984 that this program may have reached its level of maturity.

Duplication of Services

In their 1982 report, the Governor's Council on Management recommended that the Veterans' Affairs Division be eliminated, as services being offered were a duplication of services offered by veterans' service organizations and the federal veterans' administration. A 1980 sunset audit conducted by the legislative auditor

also stated there was a certain amount of duplication of services that existed between the Federal VA, State VA, veteran service organizations, and other state agencies. Table 3 on the following page shows the services being offered by each of the organizations mentioned in the sunset audit report of 1980. Following the table is a brief description of each type of service.

Table 3
Services Provided by Veteran Organizations

Services Provided	Federal VA	State VA	American Legion[1]	V.F.W.	D.A.V.	Veterans of WWI	Department of Inst.	Colleges and Universities	Department of Labor
1. Toll free Telephone	Yes	No	No	No	No	No	No	No	No
2. All VA Forms	Yes	Yes	No	No	No	No	No	No	No
3. Assistance to Veterans at Federal Veteran's Hospitals	Yes[2]	Yes	No	Yes	Yes	No	No	No	No
4. Trust Account Assistance	Yes	Yes	No	No	No	No	No	No	No
5. Assistance at Colleges and Universities	No	Yes	No	No	No	No	No	Yes[3]	No
6. Claims Processing	Yes	Yes	No	Yes[4]	Yes[4]	No	No	Yes[3]	No
7. Represent Veterans on Appeals of Claims	No	Yes	No	Yes[4]	Yes[4]	No	No	No	No
8. Annual Training Seminars	Yes	Yes	No	No	No	No	No	No	No
9. Scheduled Field Service	No	Yes	No	No	No	No	No	No	No
10. Referral Services	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
11. Complete Information on Veterans' Benefits	Yes	Yes	No	Yes[4]	Yes[4]	No	No	No	No
12. Job Placement Assistance	No	No	No	No	No	No	No	No	Yes
13. Discharge Upgrades	No	Yes	No	No	No	No	No	No	No

[1] All American Legion work is provided by the State Veteran's Administration.
[2] Limited time available (11 a.m. to 4 p.m. daily) in Helena and Miles City only.
[3] Educational claims only.
[4] The Veterans' of Foreign Wars and Disabled American Veterans' between them have a total of 1.5 state level service officers for both Montana and Wyoming who assist in filing claims and will represent or appear with veterans in appealing their cases with the VA. Each chapter of the VFW and DAV appoint service officers who generally provide minimal service such as general information, VA forms, and referrals.

A definition of the services follows:

1. Toll free telephone - assistance on veterans benefits free of charge to the caller.
2. VA forms - over 100 forms are used by the VA to apply for veteran's benefits.
3. Assistance to veterans at federal veterans hospitals are located at Helena and Miles City.
4. Trust account assistance available for benefits received by minor dependents of veterans or for those who do not have the mental capacity to act on their own behalf.
5. Assistance at colleges and universities - educational benefits and other VA benefits assistance.
6. Claims processing - assist veterans in filling out and filing claims forms.
7. Representation on appeals of claims - appeal claims denied or partially denied by the Federal VA.
8. Annual training seminars - update professionals and interested veteran organizations on changes in the laws pertaining to veterans.
9. Scheduled field service - regularly scheduled time periods on a monthly basis during which veterans may receive assistance by a service officer in each county in Montana.
10. Referral services - refer veterans to other organizations for services.
11. Complete information on veteran's benefits - have adequate training to advise and assist veterans and their dependents on all benefits available to them.
12. Job placement assistance - provide job placement assistance for veterans.
13. Discharge upgrades - provide assistance on upgrading other than honorable discharges.

Table 3 shows there are areas of duplication. The table does not show however, the degree of duplication for each service. For example, the federal Veterans' Administration provides services only at Fort Harrison in Helena and at the Medical Center in Miles City, the federal service representatives do not travel, and veterans seeking assistance at the federal level must use the toll-free telephone or visit Fort Harrison or the Medical Center between the hours of 11 a.m. and 4 p.m. In contrast, the state Veterans' Administration service officers provide regular office hours and travel to each county monthly for Veterans' Administration assistance. The federal Veterans' Administration does not provide an advocacy service for veterans and their dependents and federal service officers provide assistance to veterans only in the benefit areas requested by the veteran, while the state Veterans' Administration service officers provide a complete review of a veterans service file and counsel the veteran on all benefits that may be available.

ALTERNATIVES TO THE VETERANS' AFFAIRS PROGRAM

Three alternatives for the Veterans' Affairs Program are presented: elimination, retaining of one appeals officer, and regional service.

Elimination of the Veteran's Affairs Program

There is, to a degree, a duplication of services. Veterans do have the availability of federal Veterans' Administration service officers to consult with on benefits to which they are entitled. The major difference between the state Veterans' Administration and Federal Veterans' Assistance is that Federal Veterans' Assistance does not provide an advocacy service for state veterans. The program question arises: Is it a state general fund responsibility to provide an advocacy program for state veterans in regards to claiming federal veteran's benefits? Elimination of the program would save $466,674 of general fund in fiscal 1987.

Retain Appeals Officer

There is no duplication of services on appeals of rejected claims. The Federal Veterans' Administration, by their own regulation, is prohibited from assisting veterans in appealing. Although the Disabled American Veterans and Veterans of Foreign Wars do assist on appeals the majority of appeals are handled by the state Veterans' Administration officer at Fort Harrison. Elimination of the program except for the appeals officer would save $439,450 of general fund in fiscal 1987.

Regional Service

The veteran's affairs could be reorganized by reducing the eight field offices and the central office in Helena to five regional offices. Table 4 shows the current office staffing and a consolidated office staffing.

Table 4
Current Offices and Proposed Offices and Staff-Veterans' Affairs Division

Location	Current Staff (FTE)	Proposed Staff (FTE)
Billings	2.0	2.0
Butte	2.0	-0-
Bozeman	2.0	-0-
Great Falls	2.0	2.0
Helena	4.5	6.5
Kalispell	2.0	-0-
Miles City	1.0	2.0
Missoula	2.0	2.0
Wolf Point	1.0	-0-
Total	18.5	14.5

The Butte and Bozeman offices could be closed and combined with the Helena office. The Helena office would get a service officer, who would travel the Helena to Butte to Bozeman region. A service officer would then have to be added to the Helena office, as the service officer located in Helena has a full time job handling appeals of cases rejected by the federal government. The Helena office would also receive an office worker to answer a toll free telephone for veterans to call for information and assistance.

The Kalispell office could be combined with the Missoula office and the Wolf Point office could be combined with the Miles City office. An administrative secretary could be added to the Miles City office in order to answer telephones, offer office assistance during periods of absence of the service officer, and type claims for benefits.

A toll free telephone number for veterans to call requesting assistance, information, and forms would cost approximately $16,000 a year for 10,000 calls. By closing the four offices, approximately $2,000 a year will be saved on telephone equipment. Therefore, operating expenses will increase approximately $14,000. Table 5 shows the savings to the general fund of consolidating offices.

Table 5
General Fund Savings Under Reorganization

Personal Services 4 FTE Reduction	$ 87,688
Additional Telephone Costs	(14,000)
Total General Fund Savings	$ 73,688

The only other major expense item in the budget is travel. The travel budget was left as is, as the regional officers will have to conduct more travel to cover the closed offices.

While there may be a delay in services offered to state veterans, under this proposal, no Montana veteran will go without services. The toll free number should handle a lot of the needs of veterans for information and assistance that were formerly handled by personal contact of a service officer. If a personal contact is needed veterans can be served by service officer visits to the major cities on a regularly scheduled visit or veterans may visit the regional offices during scheduled office hours.

Option A: Eliminate the Veterans' Affairs Division for a total general fund savings of $466,674 in fiscal 1987.

Option B: Eliminate all but the appeals officer for a general fund savings of $439,450.

Option C: Reduce the Veterans' Affairs Division by 4 FTE and form regional offices to handle veterans contact for a general fund savings of $73,688.

Option D: Take no action.

ISSUE 2: CONTRACT SERVICES

Included in the Veterans' Affairs Division budget is $9,958 in contract services to pay service contracts with the Veterans of Foreign Wars (VFW) and Disabled

American Veterans (DAV) organizations. The two service organizations provide a full-time service representative to inform Veterans' of their benefits or provide assistance in submitting claims for Veterans' Administration benefits, and who will represent or appear with veterans appealing their case with the Veterans' Administration. The service contracts provide the service representatives with secretarial services which consist of typing from notes, machines, or form letters, forms, letters, applications, appeals, and all clerical work needed in relation to benefits established by the U.S. Code for veterans and their dependents before the Veterans Administration. In 1963 a Montana Supreme Court decision, Veteran's Welfare Commission of the State of Montana Vs. Veterans of Foreign Wars and the Disabled American Veterans, determined that the contract payments were in violation of Article 5, Section 11 of the Montana Constitution (revised from Article 5, Section 35 of the old Montana Constitution). That section provides in part that . . . "(5) No appropriation shall be made for religious, charitable, industrial, educational, or benevolent purposes to any private individual, private association, or private corporation not under control of the state." In spite of the supreme court decision the division has continued to receive funding for the contracts. The legislature may want to discontinue the funding of these contracts in light of the supreme court decision. This issue will be non-applicable if Option A or B of Issue 1 is passed.

Option A: Discontinue the funding of the contracts with the Veterans of Foreign Wars and Disabled American Veterans for a general fund savings of $9,958.

Option B: Take no action.

ISSUE 3: 2 PERCENT CUTS

The Department of Military Affairs reduced its general fund budget by $37,402 in response to the Governor's request for a 2 percent reduction in general fund spending for fiscal 1986. A continuation of these cuts into fiscal 1987 would result in

a savings of $38,446. If the legislature should maximize the reductions shown in Issues 1 and 2, $9,333 of the cuts will already have been made. Therefore, only $29,113 of the 2 percent cuts would be unduplicated. Table 6 shows the application of the 2 percent cuts for 1987.

Table 6
Application of 2 Percent Cuts to Fiscal 1987

Expenditures	Fiscal 1987	2% Cuts	Revised Fiscal 1987
Personal Services	$2,097,888	$ 6,305	$2,091,583
Operating	1,700,672	32,141	1,668,531
TOTAL	$3,798,560	$38,446	$3,760,114
Funding			
General Fund	$1,922,319	$38,446	$1,883,873
Federal and Other	1,876,241	-0-	1,876,241
TOTAL	$3,798,560	$38,446	$3,760,114

Option A: Reduce the fiscal 1987 general fund by $38,446.

Option B: Reduce the fiscal 1987 general fund by $29,113.

Option C: Take no action.

DEPARTMENT OF HIGHWAYS

Budget Items	Fiscal 1987 House Bill 500	Fiscal 1987 Governor's Budget	Difference
FTE	1985.75	1985.75	0.00
Personal Service	$ 51,185,410	$ 51,078,296	$ 107,114
Operating Expense	206,840,139	199,753,017	7,087,122
Equipment	6,279,994	5,868,825	411,169
Total Operating Costs	$264,305,543	$256,700,138	$7,605,405
Non-Operating Costs	19,747,389	19,730,209	17,180
Total Expenditures	$284,052,932	$276,430,347	$7,622,585
General Fund	$ -0-	$ -0-	$ -0-
State Special	154,921,108	147,631,223	7,289,885
Federal Revenue	114,992,701	114,992,701	-0-
Proprietary	14,139,123	13,806,423	332,700
Total Funding	$284,052,932	$276,430,347	$7,622,585

ISSUES IN GOVERNOR'S BUDGET - Fiscal 1987	General Fund	Other Funds
Gov. 1. 5 Percent Cut		
A. General Operations Program	-0-	$(247,508)
B. Gross Vehicle Weight Program	-0-	$(178,378)
C. Construction Program	-0-	$(3,571,967)
D. Maintenance Program	-0-	$(2,018,044)
E. Pre-construction Program	-0-	$(265,615)
F. Motor Pool Program	-0-	$(36,700)
G. Equipment Program	-0-	$(638,901)
H. Stores Inventory Program	-0-	$ (665,472)
Total 5 Percent Cut	-0-	$(7,622,585)
Gov. 2. Increase Motor Fuels Taxes		
A. Motor Fuels Tax Increase	-0-	$(24,246,000)
B. General Fund Transfers		
1. Mineral Royalties	$(6,705,000)	$6,705,000
2. Coal Severance Taxes	$(6,211,000)	$6,211,000
3. Interest Earnings	$(6,764,000)	$6,764,000

ISSUE GOV. 1: 5 PERCENT CUT

The General Operations Program was cut $247,508. The department plans to achieve the 5 percent cut in General Operations by a delay in filling vacant positions,

cutting back data processing services, travel, equipment rent, and purchasing less radio equipment.

The Gross Vehicle Weight Program was cut $178,378. The 5 percent cut will be achieved by delaying the upgrading of weigh station facilities. There will also be reductions in data processing costs.

The Construction Program was cut $3,571,967. Table 1 shows the construction projects which the department will delay to meet the budget cuts.

Table 1
Construction Projects to be Delayed - Fiscal 1987

Project	Letting Date	Fiscal 1987 Dollars
Seeley Lake/Inez	6/86	$ 949,000
Great Falls/North	8/86	1,969,000
West of Anaconda	3/87	653,967
Total		$3,571,967

The Maintenance Program was cut $2,018,044. The department plans to achieve the majority of the reduction through price reductions of petroleum products. They also plan to reduce the city contracts for Butte, Great Falls, Billings, and Missoula by 5 percent.

The Pre-construction Program was cut $265,615. The 5 percent reduction will be met by delay in filling vacant positions and a reduction in consultant engineers and appraisers on several projects.

The Motor Pool Program was cut $36,700. The reduction will be realized by lower gasoline costs and by purchasing less equipment.

The Equipment Program was cut $638,901. The reductions will be realized by lower fuel prices and a reduction in the purchase of new equipment.

The Stores Inventory Program was cut $665,472. The 5 percent reduction will be realized because of lower road oil costs.

ISSUE GOV. 2: INCREASE MOTOR FUELS TAXES

The executive budget proposes a 5 cent per gallon increase in gasoline tax and a 3 cent per gallon increase in diesel tax which would make the tax 20 cents per gallon on both gasoline and diesel. Table 2 shows the state taxes per gallon for gasoline and diesel fuels for all states. Montana's gasoline tax would be the highest and the diesel tax would rank second highest in the nation if the executive recommendation for tax increase is approved by the legislature.

Table 2
Gasoline and Diesel State Taxes per Gallon - All States

State	Gasoline	Diesel Fuel	State	Gasoline	Diesel Fuel
Alabama	11¢	12¢	Mississippi	9¢	10¢
Alaska	8¢	8¢	Missouri	7¢	7¢
Arizona	16¢	16¢	Montana	15¢	17¢
Arkansas	13.5¢	12.5¢	Nebraska	16.7¢	16.7¢
California	9¢	9¢	Nevada	11.25¢	13¢
Colorado	12¢	13¢	New Hampshire	14¢	14¢
Connecticut	16¢	16¢	New Jersey	8¢	11¢
Delaware	11¢	11¢	New Mexico	11¢	11¢
District of Columbia	15.5¢	15.5¢	New York	8¢	10¢
Florida	4¢	4¢	North Carolina	12¢	12¢
Georgia	7.5¢	7.5¢	North Dakota	13¢	13¢
Hawaii			Ohio	12¢	12¢
Hawaii County	16¢	18¢	Oklahoma	10¢	10¢
Honolulu County	18.5¢	20.5¢	Oregon	11¢	11¢
Kauai County	15¢	17¢	Pennsylvania	12¢	12¢
Maui County	17¢	19¢	Rhode Island	13¢	13¢
Idaho	14.5¢	14.5¢	South Carolina	13¢	13¢
Illinois	13¢	15.5¢	South Dakota	13¢	13¢
Indiana	14¢	15¢	Tennessee	16¢	16¢
Iowa	16¢	17.5¢	Texas	10¢	10¢
Kansas	11¢	13¢	Utah	14¢	14¢
Kentucky	10¢	10¢	Vermont	13¢	14¢
Louisiana	16¢	16¢	Virginia	11¢	11¢
Maine	14¢	14¢	Washington	18¢	18¢
Maryland	13.5¢	13.5¢	West Virginia	10.5¢	10.5¢
Massachusetts	11¢	11¢	Wisconsin	17.5¢	17.5¢
Michigan	15¢	15¢	Wisconsin	17.5¢	17.5¢
Minnesota	17¢	17¢	Wyoming	8¢	8¢

Source: Commerce Clearing House Tax Guide - May, 1986.

A comparison between the LFA and the executive revenue projections for motor fuels tax increase is shown in table 3. The LFA estimate is $269,640 or 1 percent higher than the executive estimate.

The executive budget proposes to utilize the additional tax revenues shown in table 3 and as follows:

1. Replace the mineral royalties tax which is being deposited in the reconstruction trust account. This money would then be diverted to the school foundation program to replace general fund. This would require amending Section 17-3-201, MCA.
2. Coal severance taxes now being deposited in the reconstruction trust account would be deposited to the general fund. This would require amending Section 15-35-108, MCA.
3. The interest earnings for the special revenue account would be being deposited in the general fund. This would require amending Section 17-5-911, MCA.
4. The highway patrol would be totally funded from the highway special revenue fund. This would reduce the costs to the general fund by $2.9 million in fiscal 1987. This change in funding is discussed in the Department of Justice's analysis.

Using LFA estimates the revenue increase to the Department of Highways will be $3.1 million - the executive estimates would increase the revenues $1.6 million.

Table 3
Comparison of Legislative Fiscal Analyst and Executive Revenue Projections
for Issue Gov. 2 - Fiscal 1987

	LFA Projections	Executive Projections	LFA Over Executive
Gasoline Tax Increase	$20,942,640	$ 20,756,000	$ 186,640
Diesel Tax Increase	3,573,000	3,490,000	83,000
Tax Increases	24,515,640	24,246,000	269,640
Less: Mineral Royalties	(7,914,750)	(6,705,000)	(1,209,750)
Coal Severance Tax	(6,464,537)	(6,211,000)	(253,537)
Interest Earnings	(4,100,000)	(6,764,000)	2,664,000
Highway Patrol Shift	(2,959,551)	(2,928,610)	(30,941)
Increase to Highways	$ 3,076,802	$ 1,637,390	$ 1,439,412

Table 4 is a combined fund analysis of the special revenue account and reconstruction trust account showing the effect of: 1) the additional motor fuels taxes estimated to be generated from the tax increases, 2) the elimination of the coal severance taxes, mineral royalties taxes, and the interest earnings in fiscal 1987, 3) the funding switch for the highway patrol, and 4) the 5 percent reduction to those budgets funded by these two accounts. LFA revenue projections for motor fuels tax increases, mineral taxes, coal severance taxes, and interest earnings are included in table 4.

Table 4
Combined Highway Special Revenue and Reconstruction Trust Accounts
Fiscal 1985 and 1987 Biennium

	Fiscal 1985	Fiscal 1986	Fiscal 1987
Beginning Fund Balance	$ 62,787,602	$ 74,908,467	$ 57,231,957
Revenues			
Gasoline Tax (15¢ gallon)	60,957,345	60,086,700	63,218,750
(5¢ gallon)	-0-	-0-	20,942,640
Diesel Tax (17¢ gallon	19,278,727	19,140,300	20,100,700
(3¢ gallon)	-0-	-0-	3,573,000
U.S. Minerals Taxes	8,890,580	7,629,584	-0-
Coal Severance Taxes	-0-	1,683,781	-0-
GVW Revenue	24,254,407	23,388,853	23,772,742
Interest Income	-0-	4,100,000	-0-
Stores	-0-	13,050,700	13,309,443
Prior Year Revenue Adjustment	803,060	-0-	-0-
Total Revenues	$114,184,119	$129,079,918	$ 144,917,275
Total Funds Available	$176,971,721	$203,988,385	$ 202,149,232
Disbursements and Appropriations			
Highway Traffic Safety	$ 65,468	$ 72,525	$ 73,946
5 Percent Reduction	-0-	-0-	(3,535)
Department of Justice	6,432,468	6,836,202	6,662,869
5 Percent Reduction	-0-	-0-	(467,676)
Highway Patrol Funding Switch	-0-	-0-	2,959,551
Department of Revenue	690,612	725,055	726,086
5 Percent Reduction	-0-	-0-	(36,920)
Department of Commerce	75,000	75,000	75,000
5 Percent Reduction	-0-	-0-	(3,750)
Pass through to Local Governments	14,000,000	14,000,000	14,000,000
Long Range Building	425,649	726,799	947,069
Department of Highways	80,374,057	135,384,138	156,378,477
5 Percent Reduction	-0-	-0-	(7,289,885)
Change in Construction Schedule			
Special Revenue	-0-	(2,341,765)	(8,230,731)
Reconstruction Trust	-0-	(8,721,526)	1,545,895
Total Disbursements	$102,063,254	$146,756,428	$167,336,396
ENDING FUND BALANCE	$ 74,908,467	$ 57,231,957	$ 34,812,836

Table 4 shows that after the funding changes, budget cuts, and tax increases in the Governor's budget, projected fund balance at the end of the biennium is $34.8 million. Without the additional $24.5 million of fuel taxes, the fiscal 1987 fund balance would be $10.3 million.

The changes to the combined special revenue and reconstruction trust fund balance resulting from the executive budget proposals are shown in table 5. Under the Governor's budget the Department of Highways would experience an increase of $10.9 million in the combined state special revenue and highway reconstruction accounts. Without changes, the fund balance was projected at $23.9 million. After the executive proposed changes, the fund balance is $34.8 million.

Table 5
Effect of Executive Budget Changes to Highway Funds
Fiscal 1987

Fund Balance - Before Changes in Special Session III	$ 23,934,271
Add: Fuel Tax Increases	24,515,640
5 Percent Budget Cuts	7,801,766
Total Funds Available	$ 56,251,677
Funds Applied	
Funding Switch Highway Patrol	$ (2,959,551)
Coal Severance Taxes to General Fund	(6,464,537)
Mineral Taxes to Foundation Program	(7,914,750)
Highway Trust Fund Interest in General Fund	(4,100,000)
Total Funds Applied	$(21,438,838)
Fund Balance after Governor's Proposed Changes	$ 34,812,839

Table 6 shows that there would be $983,834 in the two highway state special revenue account fund balances if all options are utilized to the maximum extent possible and the executive proposed tax increase is not enacted.

Table 6
Changes in Highway Funds if all Options are Taken With No Tax Increase

Fund Balance - Before Changes in Special Session III	$ 23,934,271
Add: 5 Percent Budget Cuts	7,801,766
Total Funds Available	$ 31,736,037
Funds Applied	
Funding Switch Highway Patrol	$ (2,959,551)
Coal Severance Taxes to General Fund (LFA Option)	(8,148,318)
Mineral Taxes to Foundation Program (LFA Option)	(15,544,334)
Highway Trust Fund Interest in General Fund	(4,100,000)
Total Funds Applied	$(30,752,203)
Fund Balance after Maximum Options and No Tax Increase	$ 983,834

DEPARTMENT OF HIGHWAYS

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	1930.36	1971.85	2005.5	1985.75	13.90
Personal Service	$ 46,840,651	$ 50,875,175	$ 52,589,087	$ 53,679,919	5.5
Operating Expense	162,038,137	204,127,160	240,845,151	206,840,139	1.3
Equipment	5,860,036	5,304,784	7,944,199	6,279,994	18.4
Total Operating Costs	$214,738,824	$260,307,119	$301,378,437	$266,800,052	2.5
Non-Operating Costs	9,514,270	30,315,694	33,389,536	33,747,389	11.3
Total Expenditures	$224,253,094	$290,622,813	$334,767,973	$300,547,441	3.4
Fund Source					
State Special	$103,265,032	$141,292,717	$193,590,309	$170,378,477	20.6
Federal Revenue	108,018,074	127,846,443	127,467,231	115,780,339	(9.4)
Other Approp. Funds	-0-	7,419,946	-0-	-0-	---
Proprietary Funds	12,969,988	14,063,707	13,710,433	14,388,625	2.3
Total Funds	$224,253,094	$290,622,813	$334,767,973	$300,547,441	3.4

ISSUES	Fiscal 1986		Fiscal 1987	
	General Fund	Other Funds	General Fund	Other Funds
1. Coal Tax Allocation	$(1,683,781)	$1,683,781	$(6,464,537)	$6,464,537
2. Mineral Tax Allocation	$(7,629,584)	$7,629,584	$(7,914,750)	$7,914,750

The Montana Department of Highways is responsible for designing, constructing, maintaining, and regulating Montana's roads. To accomplish these tasks the department is organized into several programs: general operations, construction, pre-construction, maintenance, equipment, motor pool, service revolving, stores inventory, gross vehicle weight, and capital outlay.

General Operations is comprised of the Highway Commission, director's office, and support programs, such as accounting, budgeting, personnel, and all other services necessary to the overall support of the department.

The Construction Program is responsible for all road construction and reconstruction. This includes over-seeing and coordinating work done by private contractors.

The Pre-construction Bureau is responsible for planning, designing, determining locations, acquiring right-of-ways, conducting public hearings, and processing highway project bids for contract awards.

The Maintenance Program is responsible for managing and maintaining all roads for which the state is responsible.

The Equipment Division is responsible for the purchase, maintenance, and distribution of all highway equipment except for those vehicles under the supervision of the motor pool. The division rents the vehicles to each of the other divisions within the department such as construction and maintenance.

The State Motor Pool operates and maintains the motor pool for all Helena based departments. These vehicles are rented to each agency as needed.

The Service Revolving Program provides support services in the areas of data processing, printing, photography, airplane use, van pool, and materials administration for the department.

The Stores Inventory Program is the central materials purchasing program. All materials for the department are purchased through the stores program and are charged out to each division based on usage.

The Gross Vehicle Weight Division is responsible for enforcement and administration of the statutes relating to vehicle weights on the state's highways.

The Capital Outlay Program is the sinking fund for the retirement of the department's headquarters building bonds and the repayment of all other highway bonds.

Table 1 shows the FTE and funding level for each of the programs.

Table 1
Department of Highways FTE and Funding by Program
1987 Biennium

Program	- - - Fiscal 1986 - - - FTE	Funding	- - - Fiscal 1987 - - - FTE	Funding
General Operations	142.53	$ 7,263,069	142.53	$ 7,350,513
Construction	650.40	210,483,164	619.65	175,369,879
Pre-Construction	243.00	14,458,563	243.00	12,076,626
Maintenance	662.83	40,843,440	662.83	41,191,790
Equipment	120.35	12,719,779	120.35	12,929,143
State Motor Pool	6.00	886,347	6.00	741,006
Service Revolving	73.25	3,025,210	73.25	3,309,227
Stores Inventory	0.00	13,050,700	0.00	13,309,443
Gross Vehicle Weight	107.14	3,264,365	118.14	3,706,215
Capital Outlay	0.00	14,773,336	0.00	16,563,599
Total Agency	2,005.50	$320,767,973	1,985.75	$286,547,441

*Does not include $14 million transfer to cities and counties each fiscal year.

In addition to the funding in table 1, the department is appropriated $14 million each year of the biennium by statute for distribution of gasoline tax revenues to the counties and cities within the state.

FTE changes from fiscal 1985 to fiscal 1987 are: 1) 1.5 FTE word processor position added in General Operations because of increased word processing from right-of-way construction; 2) 11.0 FTE positions added in the Pre-construction Bureau due to increased bridge work; and 3) 15.0 FTE added to the Gross Vehicle Weight Division, 4.0 FTE supervisors and 11.0 FTE officers to enhance enforcement. There was a 13.6 FTE decrease in construction positions. The number of positions in the Construction Division is based on projections by the department's construction management system.

Personal service increases of 5.5 percent reflect the additional positions, plus a $2.5 million pay plan allocation. Operating expenses increase 1.3 percent primarily due to increased contractor payments for construction. Non-operating expenses consist of local government grants, capital expenditures, and bond retirement costs.

The increase in non-operating costs of 11.3 percent is due to increased bond retirement costs.

As stated previously, the Construction Bureau has the responsibility of overseeing the highway construction projects to ensure contract compliance. These contracts may be short term or can span a number of years, depending on the size of the project. Because of the number of contracts and the time span, the department has developed a computer program to record actual expenditures and to forecast future expenditures in order to monitor cash flow.

Contractor payments for fiscal 1986 and 1987 are shown in table 2, and reflect the March 28, 1986 projections from the department's Project Cost Scheduling Report.

Table 2
Department of Highways Projected Contractor Payments for Road Construction
March 1986

Fiscal 1986	Bond 1	Bond 2	Federal	Recon Trust	State Special	Total
Interstate	$ 6,556,111	$3,407,075	$ 75,045,149	$ 484,077	$ 1,464,378	$ 86,956,790
Primary	5,387,110	-0-	19,223,243	16,702,660	392,591	41,705,604
Secondary	2,009,734	-0-	8,230,938	26,970	215,796	10,483,438
Urban	1,351,946	-0-	5,403,206	-0-	100,068	6,855,220
Bridge Repl	1,493,661	-0-	5,850,292	4,138,315	280,754	11,763,022
Highway Haz	438,740	-0-	2,607,100	7,306,376	51,821	10,404,037
Forest Hwy	-0-	-0-	999,984	-0-	-0-	999,984
Off System	-0-	-0-	-0-	271,297	-0-	271,297
Total	$17,237,302	$3,407,075	$117,359,912	$28,929,695	$2,505,408	$169,439,392
Fiscal 1987						
Interstate	$1,683,710	$9,021,547	$36,472,143	$ -0-	$ 4,863,028	$ 52,040,428
Primary	3,558,557	-0-	26,332,119	20,838,767	4,303,593	55,033,036
Secondary	352,642	-0-	9,824,582	6,000	3,016,913	13,200,137
Urban	63,067	-0-	2,110,681	-0-	520,221	2,693,969
Bridge Repl	501,540	-0-	14,665,926	7,575,299	2,892,328	25,635,093
Highway Haz	84,346	-0-	1,494,843	7,225,304	93,735	8,898,228
Forest Hwy	-0-	-0-	1,956,537	-0-	-0-	1,956,537
Off System	-0-	-0-	-0-	2,495,260	-0-	2,495,260
Total	$6,243,862	$9,021,547	$92,856,831	$38,140,630	$15,689,818	$161,952,688

Table 3 shows the contractor payments as they were projected during the 1985 legislative session.

Table 3
Department of Highways Appropriation and Projected Contractor Payments for Road Construction-March 1985

Fiscal 1986	Bond 1	Bond 2	Federal	Recon Trust	State Special	Total
Interstate	$ 6,871,079	$22,984,973	$ 51,449,611	$ -0-	$2,591,327	$ 83,896,990
Primary	7,386,691	-0-	26,620,798	2,400,000	94,619	36,502,108
Secondary	2,216,730	-0-	8,115,050	-0-	-0-	10,331,780
Urban	1,052,169	-0-	3,937,944	-0-	475,128	5,465,241
Bridge Repl	1,663,230	-0-	6,335,935	5,581,643	-0-	13,580,808
Highway Haz	61,710	-0-	5,714,987	4,728,692	1,686,099	12,191,488
Off System	-0-	-0-	-0-	24,940,886	-0-	24,940,886
Total	$19,251,609	$22,984,973	$102,174,325	$37,651,221	$4,847,173	$186,909,301
Fiscal 1987						
Interstate	$ -0-	$ -0-	$44,100,328	$ -0-	$10,990,067	$ 55,090,395
Primary	-0-	-0-	25,691,960	4,513,450	6,753,379	36,958,789
Secondary	-0-	-0-	6,180,517	-0-	1,708,233	7,888,750
Urban	-0-	-0-	2,604,357	-0-	719,845	3,324,202
Bridge Repl	-0-	-0-	8,922,011	9,233,515	2,232,188	20,387,714
Highway Haz	-0-	-0-	4,651,529	9,462,683	1,516,837	15,631,049
Off System	-0-	-0-	-0-	13,385,087	-0-	13,385,087
Total	$ -0-	$ -0-	$92,150,702	$36,594,735	$23,920,549	$152,665,986

Table 4 on the following page shows a comparison of the type of highway contracts anticipated in the appropriation of House Bill 500 and the department's revised March, 1986 plans. As table 4 shows, total current contractor payment projections done in March 1986 are $8.2 million less than was projected for the 1987 biennium during the 1985 session. In comparing the funding changes the current projections show that $10.6 million less will be spent from the highway special revenue account, $7.2 million less will be spent from the reconstruction trust account and $6.3 million less bond funds will be spent in the 1987 biennium than were projected during the 1985 session. The $17.7 million decrease in expenditure of these state funds and

the $6.3 million decrease in bond funds is due to an increase in federal dollars of $15.9 million and a decrease of $8.2 million in highway contracts.

Table 4
Comparison of the 1987 Biennium Construction Appropriation Detail
and the March 1986 Department of Highway Plan

System	March 1985 Appropriation	March 1986	Difference
Interstate	$138,987,385	$138,997,218	$ 9,833
Primary	73,460,897	96,738,640	23,277,743
Secondary	18,220,530	23,683,575	5,463,045
Urban	8,789,443	9,549,189	759,746
Bridge Repl	33,968,522	37,398,114	3,429,592
Highway Haz	27,822,537	19,302,265	(8,520,272)
Off System	38,325,973	3,495,244	(34,830,729)
Forest Hwy	-0-	2,227,835	2,227,835
Total Costs	$339,575,287	$331,392,080	$(8,183,207)
Funding			
Bond 1	$ 19,251,609	$ 23,481,165	$ 4,229,556
Bond 2	22,984,973	12,428,623	(10,556,350)
Federal	194,325,027	210,216,744	15,891,717
Recon Trust	74,245,956	67,070,326	(7,175,630)
State Special	28,767,722	18,195,222	(10,572,500)
Total Funding	$339,575,287	$331,392,080	$ (8,183,207)

Highway department personnel stated two reasons for the decreased contractor payment projections: 1) the August rains and early winter, which were the primary factors; and 2) the economy. Projections used for the 1985 session had a higher inflation rate than the state is actually experiencing in both labor and materials costs. In addition, the type of highway projects to be done has changed substantially, as shown in table 4. Off-system and highway hazard work is down $43.3 million while the other types of construction projects are up, with the $23.3 million increase in the primary system the largest increase. Language in House Bill 500 allows the Department of Highways to alter the construction projects, but expresses the intent

that the funds be spent substantially in accordance with the estimated expenditure shown on the work plan. The language reads as follows:

> The Legislature anticipates the department will proceed during the 1987 biennium with the projects and right-of-way acquisitions listed in its revised work plan presented to the legislative subcommittee on general government and highways and spend funds substantially in accordance with the estimated expenditures shown on that work plan. The Department shall report to the 1987 Legislature any significant deviation in projects undertaken or funds expended from that work plan. The Department will be allowed to adjust appropriations in the construction and preconstruction programs between fiscal years and funding sources to reflect actual expenditures related to the projected work plan.

Highway Special Revenue Account

The Department of Highways receives the majority of its state monies from the highway special revenue account. Revenues in this account primarily come from gasoline tax, diesel tax, G.V.W. revenues, and interest income. Table 5 on the following page shows revenues, expenditures, and the remaining balances for fiscal 1985 through fiscal 1987.

Table 5
Highway Special Revenue Account
Fiscal 1985 and 1987 Biennium

	Fiscal 1985	Fiscal 1986	Fiscal 1987
Beginning Fund Balance	$ 54,250,350	$ 67,846,434	$ 43,915,136
Revenues			
Gasoline Tax	60,957,345	60,086,700	63,218,750
Diesel Tax	19,278,727	19,140,300	20,100,700
GVW Revenue	24,254,407	23,388,853	23,772,742
Interest Income	-0-	4,100,000	4,100,000
Stores	-0-	13,050,700	13,309,443
Prior Year Revenue Adjustment	803,060	-0-	-0-
Total Revenues	$105,293,539	$119,766,553	$124,501,635
Total Funds Available	$159,543,889	$187,612,987	$168,416,771
Disbursements and Appropriations			
Highway Traffic Safety	$ 65,468	$ 72,525	$ 73,946
Department of Justice	6,432,468	6,836,202	6,662,869
Department of Highways	70,008,258	89,212,270	112,272,133
Department of Revenue	690,612	725,055	726,086
Department of Commerce	75,000	75,000	75,000
Pass through to Local Govt's	14,000,000	14,000,000	14,000,000
Transfer/Reconstruction Trust	-0-	32,050,000	29,600,000
Long-Range Building	425,649	726,799	947,069
Total Disbursements	$ 91,697,455	$143,697,851	$164,357,103
Ending Fund Balance	$ 67,846,434	$ 43,915,136	$ 4,059,668
Construction Schedule Adjustments			$ 10,572,500
REVISED FUND BALANCE			$ 14,632,168

Language in House Bill 500 states:

The department shall manage the program with the intent to end the 1987 biennium with approximately a $10 million cash balance in the highway special revenue account in the state special revenue fund.

With the appropriations in House Bill 500, the agency should end fiscal 1987 with a $4.1 million fund balance. However, with the Department of Highway's change in the construction schedule, the ending fiscal 1987 fund balance is projected at $14.6

million. This fund balance is conservative in that it does not anticipate any reversion of appropriation authority from the agency's other operations.

Highway Reconstruction Trust Account

The highway reconstruction trust account was authorized by the 48th legislature to provide funds for federal-aid interstate, primary, and secondary highway systems without the financial district law distribution requirements. Funding comes from 37.5 percent of the state's share of mineral royalties provided to the state by the Federal Mineral Leasing Act of 1920, coal severance tax as allocated by Section 15-35-108, MCA, and the transfer of $32,050,000 and $29,600,000 from the highway special revenue account in fiscal 1986 and 1987 respectively. Table 6 on the following page shows the actual and anticipated revenues and expenditures for fiscal 1985 through fiscal 1987. Revenue estimates are based upon LFA projections and expenditures reflect the appropriations made by the 49th legislature for fiscal years 1986 and 1987, except for the Department of Highway's construction changes shown in table 3.

Table 6
Highway Reconstruction Trust Account
Fiscal 1985 and 1987 Biennium

	Fiscal 1985	Fiscal 1986	Fiscal 1987
Beginning Fund Balance	$ 8,537,252	$ 7,062,033	$ 2,253,530
Add: U.S. Minerals Taxes	8,890,580	7,629,584	7,914,750
Coal Severance Taxes	-0-	1,683,781	6,464,537
Gas Tax Transfer	-0-	32,050,000	29,600,000
Total Funds Available	$17,427,832	$48,425,398	$46,232,817
Less: Disbursements	10,365,799	46,171,868	44,106,344
Ending Fund Balance	$ 7,062,033	$ 2,253,530	$ 2,126,473
Construction Schedule Adjustments			$ 7,175,630
REVISED FUND BALANCE			$ 9,302,103

Since the highway reconstruction revenues are primarily from the highway state special revenue account, for purposes of cash flow and fund balance these two accounts can be considered as one. Table 7 shows the two accounts combined for fiscal years 1985 through 1987.

Table 7
Combined Highway Special Revenue and Reconstruction Trust Accounts
Fiscal 1985 and 1987 Biennium

	Fiscal 1985	Fiscal 1986	Fiscal 1987
Beginning Fund Balance	$ 62,787,602	$ 74,908,467	$ 57,231,957
Revenues			
Gasoline Tax (15¢ gallon)	60,957,345	60,086,700	63,218,750
Diesel Tax (17¢ gallon	19,278,727	19,140,300	20,100,700
U.S. Minerals Taxes	8,890,580	7,629,584	7,914,750
Coal Severance Taxes	-0-	1,683,781	6,464,537
GVW Revenue	24,254,407	23,388,853	23,772,742
Interest Income	-0-	4,100,000	4,100,000
Stores	-0-	13,050,700	13,309,443
Prior Year Revenue Adjustment	803,060	-0-	-0-
Total Revenues	$114,184,119	$129,079,918	$138,880,922
Total Funds Available	$176,971,721	$203,988,385	$196,112,879
Disbursements and Appropriation			
Highway Traffic Safety	$ 65,468	$ 72,525	$ 73,946
Department of Justice	6,432,468	6,836,202	6,662,869
Department of Revenue	690,612	725,055	726,086
Department of Commerce	75,000	75,000	75,000
Pass through to Local Governments	14,000,000	14,000,000	14,000,000
Long Range Building	425,649	726,799	947,069
Department of Highways	80,374,057	135,384,138	156,378,477
Change in Construction Schedule			
Special Revenue	-0-	(2,341,765)	(8,230,734)
Reconstruction Trust	-0-	(8,721,526)	1,545,895
Total Disbursements	$102,063,254	$146,756,428	$172,178,608
ENDING FUND BALANCE	$ 74,908,467	$ 57,231,957	$ 23,934,271

ISSUE 1: REDIRECT THE HIGHWAY COAL SEVERANCE TAX ALLOCATION

Revenues in the highway reconstruction trust account include an allocation of the coal severance tax for highway reconstruction. The dollar amounts of this allocation are shown in table 8.

Table 8
Coal Severance Tax Allocated to Highway Reconstruction

Fiscal Year	Allocation
1986	$1,683,781
1987	$6,464,537
Total	$8,148,318

The allocation of the coal severance tax is authorized in Section 15-35-108, MCA, which states in two separate parts of this section, paragraphs (2) and (3)(j):

> (2) Starting July 1, 1986, and ending June 30, 1987, 6 percent of coal severance tax collections are allocated to the highway reconstruction trust fund account in the state special revenue fund. Starting July 1, 1987, and ending June 30, 1993, 12 percent of coal severance tax collections are allocated to the highway reconstruction trust fund account in the state special revenue fund.
>
> (3) Coal severance tax collections remaining after the allocations provided by subsections (1) and (2) are allocated in the following percentages of the remaining balance:
>
> > (j) 4 percent until July 1, 1987, to the highway reconstruction trust fund account in the state special revenue fund;

The 6 percent in paragraph (2) does not take effect until fiscal 1987, which explains the difference in the dollar amounts between the two fiscal years.

Paragraph 3(k) Section 15-35-108, MCA, states that all other revenues from severance taxes remaining after all allocations are made will go to the general fund.

Table 7 which reflects the cash flow for the combined highway special revenue and reconstruction trust accounts, shows that the accounts will have a $23.9 million fund balance at the end of fiscal 1987. This balance assumes only the reversion for

the contractor payments and, therefore, reflects a conservative dollar amount. The legislature may choose to eliminate the allocation of coal severance tax to the highway reconstruction trust fund for the 1987 biennium. This could be accomplished by amending Section 15-35-108, MCA, to state that allocations of coal severance tax going to the highway reconstruction trust fund be deposited in the general fund for the 1987 biennium. This would increase general fund revenues by $8.1 million, which is the biennium total of coal severance taxes shown in table 8.

If the above option is passed by the legislature, the department will be able to retroactively change the fund source for fiscal 1986 expenditures by journal voucher until about July 18.

Option A: Amend Section 15-35-108, MCA, to deposit the allocation of coal severance tax for highway reconstruction into the general fund for the 1987 biennium. This will increase general fund revenues by $8,148,318 for the 1987 biennium.

Option B: Take no action.

ISSUE 2: REALLOCATE THE U.S. MINERAL TAX REVENUES

The state of Montana receives monies each year from the federal government from the Minerals Leasing Act of 1920 (30-USC-191). These funds are statutorily distributed to the school foundation program and to the department's reconstruction trust fund by Montana law, as shown in the following sections.

> 17-3-201, MCA. Deposit of gas and oil royalties from federal government in highway account. For each fiscal year beginning on or after July 1, 1983, and ending on or before June 30, 1993, the state treasurer shall pay 37½ percent of the moneys received from the treasurer of the United States as the state's share of gas, oil, and other mineral royalties under the federal Mineral Lands Leasing Act, as amended, to the highway reconstruction trust fund account in the state special revenue fund.
>
> 20-9-343, MCA. Definition of and revenue for state equalization aid. As used in this title, the term "state equalization aid" means those moneys deposited in the state special revenue fund as required in this section plus any legislative appropriation of moneys from other sources for distribution to the public schools for the purpose of equalization of the foundation program.

> (3) The following shall be paid into the state special revenue fund for state equalization aid to public schools of the state:
>
> > (d) 62½ percent of the moneys received from the treasurer of the United States as the state's share of oil, gas, and other mineral royalties under the federal Mineral Lands Leasing Act, as amended;

The language in the Minerals Leasing Act (30-USC-191), which restricts the use of the money by the recipient states, is very general and gives the states a great deal of latitude. The following is the quote from 30-USC-191 related to the use of the funds:

> . . . to be used by such state and its subdivisions, as the legislature of the state may direct giving priority to those subdivisions of the state socially or economically impacted by development of minerals leased under this chapter, for (i) planning (ii) construction and maintenance of public facilities, and (iii) provision of public services;

Contact with the Department of Interior Mineral Management Service in Denver confirmed that all revenues received by the state of Montana for minerals tax were distributed under the provisions of 30-USC-191.

The projected distribution of these revenues for the highway reconstruction trust fund is shown in table 9.

Table 9
US Minerals Tax Distribution to Highway Reconstruction Trust Fund
1987 Biennium

Fiscal Year	Distribution
1986	$ 7,629,584
1987	7,914,750
Total	$15,544,334

Table 7 shows the combined funds will have a sufficient balance to replace these revenues in the 1987 biennium. These funds could then be diverted to the school foundation program and thus decrease the general fund by a like amount.

Option A: Amend Section 17-3-201, MCA, to allocate the mineral tax monies going to the highway reconstruction account to the school foundation account for the 1987 biennium and allow the department to replace these funds in part or totally with highway special revenue account funds. This will save the general fund approximately $15,544,334 for the 1987 biennium.

Option B: Amend Section 17-3-201, MCA, to deposit the mineral tax monies going to the highway reconstruction account to the general fund for the 1987 biennium and allow the department to replace these funds in part or totally with highway special revenue account funds. This will add approximately $15,544,334 to the general fund revenues.

Option C: Take no action.

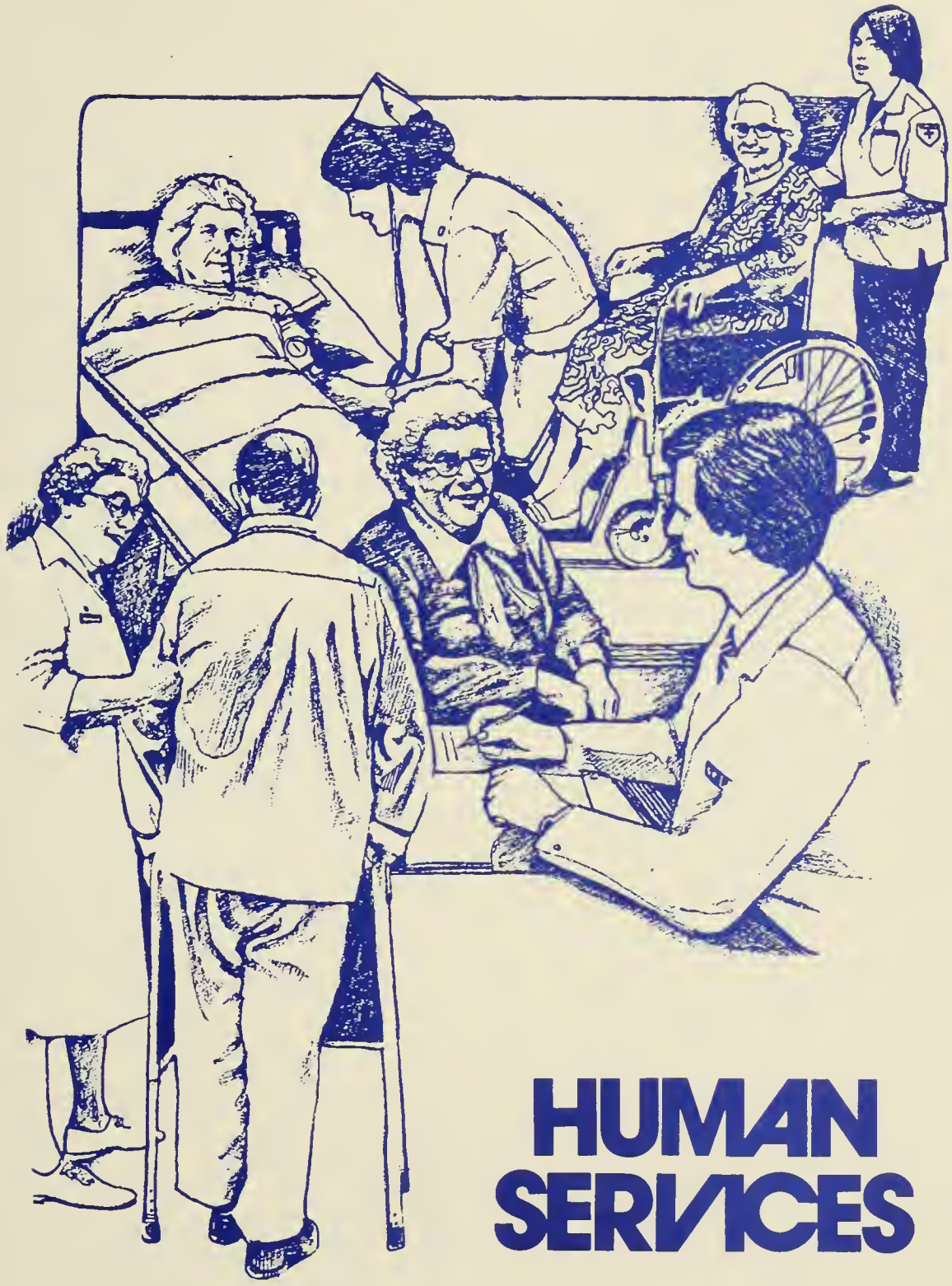
Summary

If both Issues 1 and 2, the executive proposed 5 percent reduction and the highway patrol funding switch are adopted by the legislature, then the projected fund balance of the accounts would be less than the $10 million which is referenced in House Bill 500, as shown in table 10.

Table 10
Projected Fiscal 1987 Fund Balance of the Highway State Special Revenue Account if Issues 1 and 2, the Highway Patrol Funding Switch, and the Executive 5 Percent Reduction are Adopted by the Legislature

Projected Fund Balances - Fiscal 1987	$ 23,934,271
Add: Executive Proposed 5 Percent Reduction	$ 7,801,766
Funds Available	$ 31,736,037
Less: Issue 1: Coal Tax Division	$ (8,148,318)
Issue 2: Mineral Tax Division	(15,544,334)
Highway Patrol - LFA	(2,863,688)
Total Reduction	$ 26,556,340
Projected Fund Balance After Issues and 5 Percent Reduction	$ 5,179,697

If a $10 million dollar fund balance were to be maintained in the account, it would be necessary for the legislature to increase the gasoline tax by 1.5 cents per gallon. This would increase revenues approximately $6,282,792, making the fund balance $11,462,489.



HUMAN SERVICES

HUMAN SERVICES SUBCOMMITTEE

Governor's Issues	General Fund % Cut	Fiscal 1987 General Fund	Fiscal 1987 Other Funds	Fiscal 1987 Total
Across the Board Cuts				
Health & Env. Sciences	4.5	$ 170,787	$ 155,374	$ 326,161
Labor and Industry	1.3	14,200	338	14,538
Employment Services	18.2	60,893	-0-	60,893
Social & Rehab. Services	2.0	756,732	357,839	1,114,571
Total Across the Board Cuts	1.2	$ 1,002,612	$ 513,551	$ 1,516,163
Department of Health				
1. House Bill 633 Subdivisions		$ 6,991	$ -0-	$ 6,991
2. House Bill 430 Genetics		13,000	-0-	13,000
3. House Bill 344 Family Physicians		1,750	-0-	1,750
4. House Bill 922 Hazardous Waste		-0-	52,687	52,687
Department of Labor				
1. Penalty and Interest		363,793	(363,793)	-0-
Social & Rehab. Services				
1. Maintain Benefits		1,929,983	-0-	1,929,983
2. Continue Benefit Saving		90,000	-0-	90,000
3. Limit GA Benefits		1,100,000	-0-	1,100,000
4. Other Benefit Reductions		235,568	-0-	235,568
5. Increased Matching Rate		1,221,947	-0-	1,221,947
Total Policy Cuts		$ 4,963,032	$ (311,106)	$ 4,651,926
TOTAL GOVERNOR'S CUTS		$ 5,965,644	$ 202,445	$ 6,168,089
LFA Policy Options				
Department of Health				
Water Test Fees		$ 35,250	$ (35,250)	$ -0-
Board of Health Legal Fees		5,000	-0-	5,000
Wastewater Operator Fund		27,000	(27,000)	-0-
RIT Funds - Superfund		200,000	-0-	200,000
Vital Statistics		10,000	(10,000)	-0-
Emergency Medical Services		10,000	-0-	10,000
Water Quality Management		7,127	-0-	7,127
Food and Consumer Safety		25,017	-0-	25,017
Management Services Admin.		42,176	-0-	42,176
Dental Bureau		49,385	32,878	82,263
Labor and Industry				
Apprenticeship Bureau		150,760	-0-	150,760
Social and Rehabilitation Services				
Surplus Assumed County Millage		$ 800,000	$ (800,000)	$ -0-
Personnel Reduction		90,851	149,864	240,715
Emergency General Assistance		100,000	-0-	100,000
Eligibility Technicians		32,303	(60,597)	(28,294)
Legal Services		150,000	-0-	150,000
Social Workers		222,377	31,768	254,145
Big Brothers and Sisters		56,500	-0-	56,500

- Continued -

	General Fund	Other Funds	Total
Social and Rehabilitative Services - Continued			
Foster Care Services	58,764	114,070	172,834
Alcohol and Drugs	225,000	-0-	225,000
Waiver Services	229,882	397,420	627,302
Youth Treatment Center	651,993	1,350,441	2,002,434
Non-Resident DD Services	2,636,786	-0-	2,636,786
Expanded DD Services	708,700	-0-	708,700
Supplemental Issues			
General Assistance	858,797	-0-	858,797
AFDC Payments	1,950,505	4,203,835	6,154,340
AFDC Eligibility	325,452	964,126	1,289,578
Federal Match	1,240,389	(1,240,389)	-0-
TOTAL LFA OPTIONS	$10,900,014	$ 5,071,166	$15,971,180
COMBINED GOVERNOR'S CUTS AND LFA OPTIONS	$16,865,658	$ 5,273,611	$22,139,269
LESS: Duplicate Cuts	2,528,202	52,687	2,580,889
TOTAL UNDUPLICATED CUTS	$14,337,456	$ 5,220,924	$19,558,380

Table 1 lists the duplications between the Governor's cuts and the LFA Options.

Table 1
Duplication Between Governor's Cuts and LFA Options

Agency/Issue	Governor's Cut	LFA Option	Duplication
Department of Health			
1. Board of Health Legal Fees	$ 8,000	$ 5,000	$ 5,000
2. RIT Superfund	52,687	200,000	52,687
3. Water Quality Management	19,000	7,127	7,127
4. Food & Consumer Safety	16,540	25,017	16,540
5. Management Services Admin.	20,000	42,176	20,000
6. Dental Bureau	1,213	24,263	1,213
Department of Labor			
1. Apprenticeship Bureau	154,793	150,760	150,760
Social and Rehabilitation Services			
1. Personnel Reduction	275,594	90,851	90,851
2. Eligibility Technicians	31,438	32,303	31,438
3. Legal Services	50,000	150,000	50,000
4. Social Workers	219,146	222,377	219,146
5. Big Bros. and Sisters	88,020	56,500	56,500
6. Federal Match	1,221,947	1,240,389	1,221,947
7. AFDC Freeze	461,490	759,572	461,490
8. General Assistance Freeze	196,190	237,694	196,190
TOTAL	$2,816,058	$3,244,029	$2,580,889

DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES

Budget Items	Fiscal 1987 House Bill 500	Fiscal 1987 Governor's Budget	Difference
F.T.E.	238.25	238.25	0.00
Personal Service	$ 6,438,632	$ 6,341,741	$ 96,891
Operating Expense	11,100,608	10,796,910	303,698
Equipment	12,705	12,705	-0-
Total Operating Costs	$17,551,945	$17,151,356	$400,589
Non-Operating Costs	5,939,506	5,939,506	-0-
Total Expenditures	$23,491,451	$23,090,862	$400,589
General Fund	$ 3,415,733	$ 3,223,205	$192,528
State Special	2,288,157	2,080,096	$208,061
Federal Revenue	17,787,561	17,787,561	-0-
Total Funding	$23,491,451	$23,090,862	$400,589

ISSUES IN GOVERNOR'S BUDGET - Fiscal 1987	General Fund	Other Funds
Gov.1. 5 Percent Cut		
Director's Office		
A. Renal Program	$(18,750)	-0-
B. Board of Health Legal	$(8,000)	-0-
C. Director's Office FTE	$(18,250)	-0-
Environmental Sciences Division		
D. Food and Consumer Safety FTE	$(16,540)	-0-
E. Occupational Health Operating	$(4,000)	-0-
F. Water Quality Management Grants	$(19,000)	-0-
G. Air Quality FTE	$(12,640)	-0-
H. Solid Waste Operating	$(3,905)	-0-
I. Environmental Quality Protection Fund	-0-	$(50,000)
J. Junk Vehicle	-0-	$(52,687)
K. RIT Solid Waste	-0-	$(52,687)
Management Services Division		
L. Management Services FTE	$(20,000)	-0-
Health Services Division		
M. Clinical Bureau FTE	$(27,034)	-0-
N. Dental Bureau Travel	$(1,213)	-0-
O. Emergency Medical Services	$(15,183)	-0-
P. Health Planning FTE	$(6,272)	-0-
Gov. 2. House Bill 633 - Subdivisions	$(6,991)	-0-
Gov. 3. House Bill 430 - Genetics	$(13,000)	-0-
Gov. 4. House Bill 344 - Physicians	$(1,750)	-0-
Gov. 5. House Bill 922 - Hazardous Waste Facility	-0-	$(52,687)

ISSUE GOV. 1: 5 PERCENT CUT

Following is a brief description of the 13 general fund and 3 state special revenue components of the Governor's 5 percent reductions in the Department of Health.

A. Renal Program Reduction: The Renal Program provides payments to medical providers for certain expenses of qualified persons suffering from end-stage renal disease. The program pays certain bills not reimbursable by Medicare or the patient's own insurance. The Governor is proposing to cut the 1987 general fund appropriation of $125,000 by 15 percent, or $18,750.

B. Board of Health Legal. For a detailed discussion, see LFA Issue 2. The Governor is proposing eliminating the entire $8,000 appropriation.

C. Director's Office FTE. The information officer in the Director's Office is retiring. The Governor proposes keeping the position vacant in fiscal 1987 for a savings of $18,250.

D. Food and Consumer Safety FTE. For a detailed discussion, see LFA Issue 8. The Governor's savings total $16,540.

E. Occupational Health Operating. The Governor proposes reducing utilities and repair and maintenance expenses by $4,000.

F. Water Quality Management Grants. The Governor proposes eliminating the $19,000 contract with the University of Montana to monitor the trophic status of Flathead Lake.

G. Air Quality FTE. One position currently vacant will be kept open to incur vacancy savings of $12,640. The Air Quality Bureau receives a federal grant with maintenance of effort requirements. The department has not yet received clearance from the federal government to reduce the state level of effort.

H. Solid Waste Operating. Operating expenses would be cut 5 percent, or $3,905. No specific cuts were proposed.

I. Environmental Protection Fund. The department received a $1,000,000 authority to allow them to respond to any release of hazardous materials. The Governor proposes reducing this authority by $50,000. There are no funds associated with this authority.

J. Junk Vehicle. The contingency fund of $100,000 provided in the event the cost of crushing vehicles exceeds the scrap value of those vehicles would be reduced by $52,687. The contingency fund has never been used for the purpose assigned.

K. RIT Solid Waste. For a detailed discussion, see LFA Issue 4. The department proposes reducing the appropriation by $52,687.

L. Management Services Division. Vacancy savings due to the vacancy of the division administrator position would be taken, saving $20,000. For a related discussion, see LFA Issue 9.

M. Clinical Bureau Administration. The division administrator is cutting back the number of hours worked. His position would be reduced to .75 FTE to reflect this reduction, saving $15,465. Clinic and seminar expenses would be reduced $11,569.

N. Dental Program. The Governor proposes reducing out-of-state travel by $1,213.

O. Emergency Medical Services. Vacancy savings of $7,724 would be taken due to a vacant clerical position. Operating expenses would be reduced $7,459.

P. Health Planning. Vacancy savings of $6,272 would be taken due to the vacancy of the librarian position. The bureau receives a federal grant with maintenance of effort requirements. Clearance to reduce the level of effort has not yet been received.

ISSUE GOV.2: HOUSE BILL 633 - SUBDIVISIONS

Expenses for operating the Subdivisions Program of the Water Quality Bureau were contained in House Bill 633 and are, therefore, not included in the above table. The Governor proposes an across-the-board reduction of 5 percent in the program totaling $6,991 and has included these savings in the total 5 percent reduction. The reductions would be made in contract services and travel.

ISSUE GOV. 3: HOUSE BILL 430 - GENETICS

The department received a biennial appropriation of $520,000 in House Bill 430 to contract with Shodair hospital for a genetics program. These funds are not included in the above table. The Governor proposes reducing the fiscal 1987 contract by an amount equal to 2.5 percent of the biennial appropriation, or $13,000, and has included these savings in the total 5 percent reduction.

ISSUE GOV. 4: HOUSE BILL 344 - FAMILY PRACTICE PHYSICIANS

The department was appropriated $70,000 over the biennium in House Bill 344 to contract with a private firm to train physicians in family practice and to attract resident physicians to the state. These funds are not included in the above table. The Governor proposes reducing the contract by 2.5 percent, or $1,750, and has included these savings in the total 5 percent reduction.

ISSUE GOV. 5: HOUSE BILL 922 - HAZARDOUS WASTE FACILITY

The department received a biennial appropriation of $800,000 to study and build a facility to collect and transfer hazardous waste. The funds were appropriated to the Department of Natural Resources and Conservation in House Bill 922 to grant to the Department of Health and are not included in the above table. The Governor proposes reducing the appropriation by $52,687 due to anticipated cost savings and has included these savings in the total 5 percent reduction.

DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	229.15	233.10	241.00	241.25	8.15
Personal Service	$ 5,898,366	$ 6,126,924	$ 6,531,170	$ 6,758,930	10.3
Operating Expense	7,774,390	8,522,561	13,339,530	11,264,686	32.2
Equipment	174,701	223,136	208,805	13,452	(94.0)
Total Operating Costs	$13,847,457	$14,872,621	$20,079,505	$18,037,068	21.3
Non-Operating Costs	6,160,650	6,592,797	6,561,831	5,939,506	(9.9)
Total Expenditures	$20,008,107	$21,465,418	$26,641,336	$23,976,574	11.7
Fund Source					
General Fund	$ 3,490,653	$ 3,562,568	$ 4,286,731	$ 3,755,755	5.4
State Special Revenue	1,291,327	1,634,473	3,782,666	2,310,823	41.4
Federal Revenue	15,224,807	16,268,377	18,571,939	17,909,996	10.1
Other Funds	1,320	-0-	-0-	-0-	---
Total Funds	$20,008,107	$21,465,418	$26,641,336	$23,976,574	11.7

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. Water Test Fees	$(35,250)	$35,250
2. Board of Health Legal Fees	$(5,000)	-0-
3. Waste Water Operator Fund	$(27,000)	$27,000
4. RIT Funds - Superfund	$(200,000)	-0-
5. Vital Statistics	$(10,000)	$10,000
6. Emergency Medical Services	$(10,000)	-0-
7. Water Quality Management	$(7,127)	-0-
8. Food and Consumer Safety	$(25,017)	-0-
9. Management Services Administration	$(42,176)	-0-
10. Dental Bureau		
Option A: Eliminate the Dental Program	$(24,263)	$(58,000)
Option B: Incorporate Maternal and Child Health savings	$(25,122)	-0-
Added General Fund Revenue		
11. Food and Consumer Safety Bureau - Fees		
Option A1: Increase to $40	$118,000	-0-
Option A2: Increase to $50	$199,000	-0-
Option A3: Increase to $56	$247,600	-0-

The Department of Health and Environmental Sciences promotes and protects the health of Montanans through environmental monitoring, microbiology and chemistry

laboratory services, and various preventive health services.

The rise in personal services of 10.3 percent is due to the addition of 8.15 FTE, pay plan totaling $320,298, and vacancies the equivalent of 13.60 FTE in fiscal 1985.

Operating expenses rise 32.2 percent due primarily to two factors: 1) an increase of $1,565,467 in expenses of the Superfund Program, a program to investigate and clean-up hazardous disposal sites in the state, over the fiscal 1985 level to expand the number and scope of superfund projects; and 2) an increase of $768,100 in the Special Supplemental Food Program for Women, Infants and Children expenses, primarily in food payments.

Grants decrease 9.9 percent primarily due to a lower level of Maternal and Child Health Block Grants to counties. The 1983 legislature stipulated that if any funds over the appropriated level were received, those funds would be allocated to the counties. Due to an increase in the grant award over the anticipated level and the incorporation of carryover funds, $586,762 was added by legislative appropriation in fiscal 1985 and not continued in the 1987 biennium, resulting in the lower fiscal 1987 level of grants compared to the fiscal 1985 level.

The rise in general fund of 5.4 percent is due primarily to three factors: 1) the substitution of $139,825 general fund for subdivision review fees in the Subdivisions Program. Fees will now be deposited to the general fund as collected; 2) an increase in general fund support to the Licensing and Certification Bureau of $120,860, replacing federal funds that were no longer available; and 3) pay plan totaling $200,197 in fiscal 1987. Without these influences general fund would have decreased 7.4 percent due to various agency-wide adjustments.

State special revenue funding rises 41.4 percent due to expected increases in laboratory income of $153,000, greater use of junk vehicle fees of $195,000, and the addition of Resource Indemnity Trust funds totaling $416,078, primarily to provide match for the Hazardous Waste and Superfund Programs. State special revenue funding decreased in the Subdivision Review Program by $139,825.

Federal funds rise 10.1 percent due primarily to the addition of $834,316 in Women, Infants, and Children and Child Nutrition Programs and related administration and an increase of $1,393,666 in the Hazardous Waste and Superfund Programs. When these two occurrences are factored out, the resulting total is a decrease of 3.6 percent in federal funds.

ISSUE 1: WATER TEST FEE INCOME

The microbiology laboratory, as authorized by the legislature, collects fees for certain water analyses. The fees are deposited to the water testing account and offset a portion of the operating expenses of the laboratory and of related administration.

In determining the water test fees available in the 1987 biennium, the 1985 legislature assumed a beginning balance in fiscal 1986 in the water testing account of $70,905. This balance was used to fund operations of the microbiology laboratory and of Management Services Division administration, reducing general fund a like amount. However, the actual beginning balance totaled $106,155. Therefore, total water test funds available to the department for use in the 1987 biennium was underestimated by $35,250.

The issue to consider is whether the difference between the anticipated and actual balance should be substituted for general fund in the Management Services Division.

Option A: Substitute $35,250 of additional water test fees for a one time savings to the general fund.

ISSUE 2: BOARD OF HEALTH LEGAL FEES

The Board of Health is a quasi-judicial board appointed by the Governor to advise the health department in public health matters.

The board, which is 100 percent funded by general fund, cannot use the legal resources of the department at times due to a potential conflict of interest. In re-

sponse, the board is given appropriation authority to hire outside legal assistance. The following table shows the total contracted legal expenses of the board for each year since fiscal 1984.

Table 1
Board of Health - Contracted Legal Services

	Fiscal 1984	Fiscal 1985	Fiscal 1986*
Total Legal Expenses	$455	$2,259	$1,930

*As of April 30, 1986. Extrapolation to fiscal year end totals $2,316.

Total appropriation authority for contracted legal services in fiscal 1987 is $8,000. The issue to consider is whether the full authority should remain in the Board of Health or whether it should be reduced for immediate savings of general fund.

Option A: Reduce the legal services appropriation of the Board of Health to $3,000 in fiscal 1987 for a general fund savings of $5,000.

ISSUE 3: USE OF WASTE WATER OPERATOR FUND BALANCE

All persons in charge of water supply and wastewater treatment facilities must be certified by the Water and Wastewater Operator Certification and Training Program of the Water Quality Bureau. Fees, established by the state and set by administrative rule, are charged for this service. The fee level depends upon the type and size of the wastewater plant. Fees are deposited to a special revenue account from which all expenses of the Water and Wastewater Operator Certification and Training Program are funded. Table 2 on the following page shows the fee income to and disbursements from the Board of Certification for Water and Wastewater Operators account from fiscal 1982 to fiscal 1985.

Table 2
Income and Disbursements - Water and Wastewater Operators
Fiscal 1982 - Fiscal 1985

	Fiscal 1982	Fiscal 1983	Fiscal 1984	Fiscal 1985
Beginning Balance	$24,812	$24,752	$21,684	$24,282
Income	16,865	15,595	21,952	26,360
Total Available	$41,677	$40,347	$43,636	$50,642
Disbursements	$17,522	$18,563	$19,334	$18,048
Adjustments	597	(100)	(20)	(15)
Ending Balance	$24,752	$21,684	$24,282	$32,579

Fiscal 1986 appropriated disbursements total $19,439. Revenue anticipated in fiscal 1986 totals $19,500.

The Water Quality Bureau consists of several additional programs, four of which receive general fund support. The following table shows the programs receiving general fund and the appropriated amounts in fiscal 1987.

Table 3
Water Quality Bureau - General Fund Appropriations for Fiscal 1987

Program	Total General Fund
Water Pollution Control	$ 72,000
Water Quality Management	96,251
Safe Drinking Water	98,280
Subdivisions	139,825

The issue to consider is whether the legislature wishes to use the balance in the Water and Wastewater Operator fund to replace general fund in the Water Quality Bureau. Incorporation of the fund balance may require the modification of Section 37-42-309, MCA, which states that fees collected will be used to fund the Water and Wastewater Operators Certification and Training Program.

Option A: Incorporate $27,000 of the current fund balance in the Board of Certification of Water and Wastewater Operators fund to replace general fund in the Water Quality Bureau. This option leaves a $5,000 balance.

ISSUE 4: RESOURCE INDEMNITY TRUST INTEREST FUNDS - SUPERFUND PROGRAM

Under Montana statute, 6 percent of the interest income from the Resource Indemnity Trust Fund (RIT) is allocated to the Department of Health and Environmental Sciences to implement federal and state hazardous waste and superfund laws. Table 4 shows the current allocation of RIT interest funds within the department as appropriated by the 1985 legislature.

Table 4
6 Percent Resource Indemnity Trust Funds - Department of Health

Recipient Units	Fiscal 1986	Fiscal 1987	Biennium
Superfund Program	$203,858	$264,122	$467,980
Environmental Sciences Administration	56,770	56,947	113,717
Hazardous Waste Program	96,335	94,904	191,239
Financial Administration Division	19,037	19,027	38,064
Total Appropriation	$376,000	$435,000	$811,000

Although the RIT interest funds are listed by year, Section 15-38-202, MCA, requires that RIT funds to the department be appropriated for each full biennium. It is the intent of the department to revert all unexpended RIT interest funds at the end of the biennium.

RIT interest funds in the Superfund Program provide the required match on federal Environmental Protection Agency (EPA) funds. Superfund is funded by project and the match required depends on the stage the project is in: (1) 100 percent federal in the investigatory stage; (2) 90 percent federal, 10 percent state in the cleanup stage; (3) 100 percent state in the maintenance stage. Total state funds

required are also dependent upon decisions on the federal level concerning which specific projects to fund in any year. The superfund match appropriation in the 1987 biennium was made based upon the availability of RIT interest funds after the needs of the Hazardous Waste Program and Environmental Sciences Division Administration were met. The level appropriated in the 1987 biennium was meant to provide as much match money as possible in the event that projects moved into the more expensive phases. The department anticipates that one current project, Milltown, will move into the clean-up stage in fiscal 1987, and estimates that state matching fund needs are $100,000 to $150,000 in that year. Another project, Silverbow Creek, may move into the clean-up phase, with an estimated $100,000 in expenditures. Fiscal 1986 RIT interest fund expenditures totaled $2,633 as of April 30, with no major expenditures anticipated for the remainder of the fiscal year. It is unlikely, therefore, that the department will require the full $467,980 RIT interest funds appropriated over the biennium to fund the Superfund Program. Expenditures will more likely total $200,000 to $250,000 over the biennium.

The issue to be considered is whether the portion of Superfund Program RIT interest appropriation not required in that program should be used to fund other programs in the Environmental Sciences Division. If not used, the funds will revert to the RIT interest account and will be lost to the department in the 1987 biennium. Table 5 on the following page shows appropriated general fund in programs of the division directly related to improving or maintaining environmental quality.

Table 5
General Fund - Environmental Sciences Division*
Fiscal 1986 - 1987

	Fiscal 1986	Fiscal 1987
Solid Waste Program	$ 78,226	$ 78,102
Air Quality Bureau	320,657	320,657
Water Quality Bureau		
Water Pollution Control	72,000	72,000
Safe Drinking Water	97,437	98,280
Water Quality Management	94,535	96,251
Total General Fund	$662,895	$665,290

*Does not include pay plan or 2 percent cuts.

Reallocating funds to other areas of the Environmental Sciences Division may require the modification of Section 15-38-202, MCA, which states that the 6 percent RIT interest funds allocated to the department of health shall be used to implement the Montana Hazardous Waste Act and federal Superfund laws.

Option A: Reallocate $200,000 of the RIT interest funds which will not be needed for the Superfund Program to one or more other programs of the Environmental Sciences Division. General fund would be reduced by a like amount.

ISSUE 5: USE OF VITAL STATISTICS FUND BALANCE IN RECORDS AND STATISTICS BUREAU

Copies of certificates generated by local registries, including birth and death certificates, are made available to the public on request by the Records and Statistics Bureau of the department of health. A fee of $5 is charged per copy and deposited to the vital statistics account. Income generated by the fee offsets general operating expenses of the bureau. Table 6 on the following page shows the breakdown of funding in the bureau in the 1987 biennium.

Table 6
Records and Statistics Bureau - Funding
Fiscal 1986-1987*

Funding Source	Fiscal 1986	Fiscal 1987
General Fund	$234,518	$228,158
Vital Statistics Certificate Fees	72,269	72,203
Center for Disease Control	2,333	2,333
National Center for Health Statistics	61,090	61,090
Total Funding	$370,210	$363,784

*Does not include pay plan or 2 percent cuts.

At fiscal 1985 year end, the vital statistics account contained $13,079. The issue to be considered is whether a portion of this fund balance should offset a like amount of general fund in the Records and Statistics Bureau.

Option A: Offset $10,000 general fund with vital statistics income in fiscal 1987.

ISSUE 6: EMERGENCY MEDICAL SERVICES

The Emergency Medical Services Bureau provides a number of services in all areas of emergency response. These services include certification and training of emergency personnel, including ambulance drivers; management of the Montana Poison Control and First Responder training programs; and the provision of emergency response and coordination. The bureau is funded by general fund, federal Preventive Health Block Grant, and Emergency Medical Training and Certification fees.

A state council is currently updating the state's Emergency Medical Services (EMS) plan, which was written in 1972. The plan will illustrate deficiencies and needs and provide guidance to the bureau and to emergency care providers. Since the current state plan is considered obsolete, neither the bureau nor emergency care providers have been operating under a current state plan for as long as ten years.

General fund of $10,000 was included in the fiscal 1987 Emergency Medical Services Bureau budget to print the state plan. The issue to consider is: Should printing of the plan be postponed until the next biennium?

Option A: Postpone printing the state EMS plan, reducing general fund by $10,000.

ISSUE 7: WATER QUALITY MANAGEMENT

The Water Quality Management Section of the Water Quality Bureau monitors water quality in streams and provides water quality assessments and clean-up plans for problem areas.

As part of its 2 percent cuts ordered by the Governor, the department reduced general fund appropriations to the Water Quality Management Section by $7,000. This represents 7.4 percent of the fiscal 1986 appropriation of $94,535. This same percentage cut could be made on the fiscal 1987 general fund appropriation, which totals $96,251. Reductions would mean fewer grants to conservation districts to monitor water quality. This will result in less information gathered with which to locate and address problem water quality areas.

Federal funds in the Water Quality Management Section do not have match or maintenance of effort requirements. Therefore, cuts in this program would not endanger federal grant awards.

Option A: Reduce general fund to the Water Quality Management Section by 7.4 percent, at a savings of $7,127.

ISSUE 8: FOOD AND CONSUMER SAFETY BUREAU: VACANT POSITION

A grade 14 sanitarian II position in the Food and Consumer Safety Bureau has been vacant since July, 1985, pending a redefinition and realignment of duties. This position could be kept vacant through fiscal 1987. Inspections of state institutions and consultation with local inspection boards associated with the position would continue to be conducted by current staff.

Option A: Maintain the sanitarian II position vacancy through fiscal 1987 for a general fund savings of $25,017.

ISSUE 9: MANAGEMENT SERVICES DIVISION ADMINISTRATION

Management Services Division includes all film library and data processing functions of the department of health, as well as the microbiology and chemistry laboratories. The division administrator position has been vacant since January.

Prior to the department of health's reorganization in 1983, the department had one service division administrator, that of the Central Services Division. Under the current organization, the department has two service division administrators: Management Services and Financial Management.

All data and word processing and film library services of the Management Services Division could be consolidated with the fiscal and statistical services of the Financial Management Division, eliminating the need for a Management Services Division administrator.

Management Services Division Administration, of which the administrative position is a part, is funded by general fund, and laboratory and film library fees. Fee income to the office could be maintained at current levels, reducing general fund by the full cost of the deleted FTE.

Option A: Delete the Management Services Division administrator position for a general fund savings of $42,176.

ISSUE 10: ELIMINATE THE DENTAL PROGRAM

The Dental Program of the Dental and Health Education and Risk Reduction Bureau consists primarily of preventive dental education and screening programs aimed at school children.

The Dental Program is funded in fiscal 1987 with $24,263 in general fund, $43,000 in Maternal and Child Health Block Grant Funds, and $15,000 in Preventive Health Block Grant Funds for mouthrinse supplies. Both block grants are vulnerable

to and scheduled for federal cuts in fiscal 1987.

According to the latest census data, there were 484 dentists in the state in 1982, or 60 per each 100,000 population. The national figures were 55 dentists per 100,000 population. The number of dentists in the state increased 8.5 percent in 1983 to 525. If the Dental Program were eliminated, dental education and screening would continue to be provided at a charge by the dental professionals in the state. Dental care and maintenance for medicaid eligible children under age 21 would continue to be financed by the state and federal Early Periodic Screening Diagnosis and Treatment (EPSDT) programs.

Maternal and Child Health Block Grant currently allocated to the Dental Program could be used to offset general fund in the Clinical Bureau. The Clinical Bureau of the Health Services and Medical Facilities Division is responsible for several programs, including the Special Supplemental Food Program for Women, Infants and Children; Child Nutrition; Handicapped Childrens' Services; and the Perinatal Program. Administrative costs of the bureau are funded by general fund and the Maternal and Child Health Block Grant (MCH). The following table shows the appropriated MCH block grant funds for Clinical Bureau Administration.

Table 7
Maternal and Child Health - Clinical Administration

Funding Source	Fiscal 1986	Fiscal 1987
General Fund	$ 54,337	$ 74,968
MCH	105,756	80,634
Total	$160,093	$155,602

There are no restrictions placed on the use of the MCH grant for administrative purposes. However, administrative use of the funds must be documented. As seen in table 7, there are $25,122 more MCH grant funds in Clinical Administration in fiscal

1986 than in fiscal 1987. Therefore, general fund of $25,122 could be replaced with MCH funds while remaining within the federal requirements.

The issues to be addressed are whether the legislature wishes to eliminate the Dental Program and replace general fund in Clinical Administration with Maternal and Child Health Block Grants currently allocated to the Dental Program. The remainder of the block grant savings could be used to partially offset anticipated federal cuts in the two block grants.

Option A: Eliminate the Dental Program for a savings of $24,263 to general fund, $43,000 in Maternal and Child Health Block Grants, and $15,000 in Preventive Health Block Grants.

Option B: Eliminate the Dental Program and replace general fund in Clinical Administration with Maternal and Child Health Block Grant funds, for an additional general fund savings of $25,122.

ISSUE 11: FOOD AND CONSUMER SAFETY BUREAU

The Food and Consumer Safety Bureau of the Environmental Sciences Division is responsible for issuing licenses to food establishments, hotels, motels, and trailer parks and for training and support services to local health inspectors.

All licensed establishments must pay a license fee of $30, of which 85 percent goes to the local board inspection fund to be used as grants to local boards of inspection to defray their costs and the remainder to the general fund. Table 8 on the following page shows licensing fee revenues from fiscal 1984 to fiscal 1987.

Table 8
Allocation of Licensing Fee Revenues - Fiscal 1984 to Fiscal 1987

Fund Recipient	Fiscal 1984	Fiscal 1985	- - - - Projected - - - - Fiscal 1986	Fiscal 1987
Local Board Inspection Fund	$197,985	$201,148	$204,000	$206,000
General Fund	34,935	35,497	36,000	36,353
Total	$232,920	$236,645	$240,000	$242,353

The following table shows the non-grant expenses of the Food and Consumer Safety Bureau from fiscal 1984 to fiscal 1987. All non-grant expenses are funded with general fund. Compared with this total is the total fees collected for deposit to the general fund.

Table 9
Food and Consumer Safety Bureau
Non-grant Expenses to General Fund Fees
Fiscal 1984 - Fiscal 1987

Fiscal Year	Non-Grant Expenses	General Fund Fees	Percent Fees to Expenses
1984	$342,139	$34,935	10.21
1985	351,085	35,497	10.11
1986	328,488*	36,000**	10.96
1987	330,793*	36,353**	10.99

*Appropriated - does not include pay plan.
**Estimated

According to an estimate by the department, over 75 percent of the bureau's resources are expended providing services to local inspection boards such as training, rule dissemination and enforcement, and direct services to licensed establishments. However, as can be seen from table 9, less than 11 percent of the non-grant expenses of the bureau are funded from license fees.

The issue to consider is: should the legislature raise license fees to the approximately 8,100 licensed establishments in the state to help defray a larger portion of the expenses of the Food and Consumer Safety Bureau? Increasing fees from the current $30 while maintaining the $25.50 going to the Local Board Inspection Fund would require the modification of Section 50-51-204, MCA, which currently reads:

> ...there shall be paid to the department with each application for such license or for renewal of such license an annual license fee of $30. The department shall deposit 85% of the fees collected in the state special revenue fund to the credit of the local board inspection fund account created by 50-2-108(2) and the balance of the fees in the general fund.

Option A: Increase license fee to $40, which would raise $118,000 to the general fund.

Option B: Increase license fee to $50, which would raise $199,000 to the general fund.

Option C: Increase license fee to $56, which would raise $247,600 to the general fund and recapture 75 percent of current non-grant expenditures of the Food and Consumer Safety Bureau in keeping with the current distribution of workload.

DEPARTMENT OF LABOR AND INDUSTRY

Budget Items	Fiscal 1987 House Bill 500	Fiscal 1987 Governor's Budget	Difference
F.T.E.	43.5	43.5	0.00
Personal Service	$1,180,457	$1,179,957	$ 500
Operating Expense	411,691	397,653	14,038
Total Expenditures	$1,592,148	$1,577,610	$ 14,538
General Fund	$1,067,469	$ 898,476	$ 168,993
State Special	3,250	3,087	163
Federal Revenue	517,929	517,929	-0-
Other Funds	3,500	158,118	(154,618)
Total Funding	$1,592,148	$1,577,610	$ 14,538

ISSUES IN GOVERNOR'S BUDGET - Fiscal 1987	General Fund	Other Funds
Gov. 1. 5 Percent Cut		
A. Labor Standards	$(10,000)*	$(163)
B. Appeals	$(4,200)*	$(175)
Gov. 2. Penalty and Interest Monies	$(154,793)	$154,793

*The Governor's budget lists a general fund reduction of $34,923. However, according to OBPP, the above figures are the correct reductions.

ISSUE GOV. 1: 5 PERCENT CUT

In the Labor Standards Division, funds for legal costs of wage cases would be reduced by $10,000 to $2,000. The division had received an increase of $11,832 in fiscal 1987. Other funds are license fees paid by private employment agencies. The reduction is a straight 5 percent cut.

The Board of Personnel Appeals would have fewer meetings and fact finding would be curtailed. Other funds are funds received from the sale of case decisions. The reduction is a straight 5 percent cut.

ISSUE GOV. 2: UTILIZATION OF PENALTY AND INTEREST MONIES

The Unemployment Insurance Division of Employment Services collects penalties and interest from employers who do not pay unemployment taxes in a timely manner. These funds are currently deposited to the Unemployment Trust Fund. The Governor proposes using a portion of these funds to replace general fund to completely support the Apprenticeship Bureau of Labor Standards. For a related discussion, see LFA Issue 1.

LABOR AND INDUSTRY

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	45.25	44.50	43.50	43.50	(1.00)
Personal Service	$1,139,851	$1,122,549	$1,199,492	$1,244,053	10.8
Operating Expense	374,428	374,969	406,611	411,691	9.8
Equipment	16,589	46,047	346	-0-	(100.0)
Total Expenditures	$1,530,868	$1,543,565	$1,606,449	$1,655,744	7.3
Fund Source					
General Fund	$ 986,624	$1,036,593	$1,071,603	$1,111,827	7.3
State Special Revenue	2,800	2,589	3,250	3,250	25.5
Federal Revenue	541,444	504,383	528,096	537,167	6.5
Other Funds	-0-	-0-	3,500	3,500	-0-
Total Funds	$1,530,868	$1,543,565	$1,606,449	$1,655,744	7.3

ISSUES - Fiscal 1987	General Fund	Other Funds
1. Apprenticeship Bureau		
Option A.	$(150,760)	-0-
Option B.	$(83,027)	-0-
2. Maintenance of 2% Reductions	$(14,700)	-0-

Labor and Industry enforces state wage and hour laws, provides for apprenticeships, hears classification and unemployment insurance disputes, and enforces state and federal antidiscrimination in employment laws. It is comprised of three divisions: the Commissioner of Labor and Industry, Labor Standards and Appeals, and an independent administrative entity, the Human Rights Commission.

The net decrease in FTE is due to the deletion of 1.0 FTE in the Appeals Division and .75 FTE in the Labor Standards Division, and the addition of .75 FTE in the Human Rights Commission.

Personal Services rise 10.8 percent due to pay plan of $25,340 in fiscal 1987, and vacancies equivalent to 3.75 FTE in fiscal 1985.

Operating expenses rise 9.8 percent due to inflation of $18,336 and a general rise in operating expenses, including legal fees, consultant fees, maintenance contracts, and communications.

Equipment in fiscal 1985 consisted of data processing equipment purchases.

General fund rises 7.3 percent due to general expense rises in the Labor Standards Division, Personnel Appeals of the Appeals Division, and the Human Rights Commission.

State special revenue consists of license fees paid by private employment agencies. The total available is expected to rise 25.5 percent due to appropriation of the fund balance in fiscal 1987.

Federal funds rise 6.5 percent due to increases in operating expenses of the Commissioners' Office, the Human Rights Commission, and Unemployment Insurance Appeals of the Appeals Division.

Other funds consist of income from the sale of case decisions in the Appeals Division.

ISSUE 1: APPRENTICESHIP BUREAU

Montana's business and labor sectors share the responsibility of creating apprenticeship programs designed to produce qualified skilled workers. The Apprenticeship Bureau provides technical assistance to prospective or active program sponsors to encourage the development and maintenance of these programs. The bureau is also recognized by the federal government as the official apprenticeship registration agency in the state for federal projects. The following table shows expenses and funding of the bureau since fiscal 1981.

Table 1
Apprenticeship Bureau - Expenditures and Funding

Budget Item	Fiscal 1981	Fiscal 1982	Fiscal 1983	Fiscal 1984	Fiscal 1985	Fiscal 1986*
Personal Services	$ 80,264	$ 89,171	$108,847	$107,676	$115,964	$107,388
Operating Expense	12,019	19,006	19,425	38,974	38,907	40,155
Equipment	-0-	-0-	234	-0-	5,419	-0-
Transfers	20,164	19,554	14,736	-0-	-0-	-0-
Total	$112,447	$127,731	$143,242	$146,650	$160,290	$147,543
Funding						
General Fund	$ 50,520	$ 75,441	$ 91,431	$132,974	$154,871	$147,543
Federal	61,927	52,290	51,811	13,676	5,419	-0-
Total	$112,447	$127,731	$143,242	$146,650	$160,290	$147,543

*As allocated by the Department of Labor from the Labor Standards Division appropriation.

As can be seen from table 1, the bureau has gone from a primarily federally funded entity to one entirely supported by the general fund. Table 2 shows the number of apprenticeship positions in the state since fiscal 1980. Since fiscal 1980 the total number of persons serving apprenticeships has steadily fallen.

Table 2
Apprenticeship Bureau - Apprentices
Fiscal 1981 - Calendar 1985

	Fiscal 1980	Fiscal 1981	Fiscal 1982	Calendar 1983	Calendar 1984	Calendar 1985
New Apprentices Registered	639	478	478	288	327	344
Apprentices Completed	309	280	377	249	268	157
Total Registered Apprentices*	1794	1670	1422	1154	934	856

*Also includes continuing apprentices.

The federal Bureau of Apprenticeship and Training (BAT) currently has two field officers and one clerical staff in the state. This office works with the state bureau to secure apprenticeships and provides support and consultation services. The BAT office would perform the federal registry functions if the state office were eliminated or reduced. However, according to BAT regional personnel, it is unlikely, due to budget considerations, that BAT expenditures or personnel would be increased in the state. Creating and securing apprenticeship positions would remain the responsibility of the state's business and labor community.

The fall in federal funding and apprenticeships raises the issue for consideration: Does the legislature wish to continue funding the Apprenticeship Bureau at current levels?

Option A: Eliminate the Apprenticeship Bureau. This would result in a general fund savings of $150,760 in fiscal 1987.

Option B: Reduce the Apprenticeship Bureau general fund expenditures to the proportionate fiscal 1981 levels, or 44.9 percent of the total appropriation. This option would reduce general fund by $83,027 to $67,733, and would necessitate staff reductions.

ISSUE 2: CONTINUATION OF GOVERNOR'S 2 PERCENT REDUCTIONS

If the Governor's reductions in fiscal 1986 are maintained through fiscal 1987, general fund would be reduced by $14,700. Table 3 on the following page shows a first level breakdown of cuts in the fiscal 1986 budget.

Table 3
Governor's Reductions - Labor and Industry

	Fiscal 1986 Appropriation	Governor's Reduction	After Reduction
Personal Service	$1,202,992	$ (3,500)	$1,199,492
Operating Expense	417,811	(11,200)	406,611
Equipment	346	-0-	346
Total Expenditures	$1,621,149	$(14,700)	$1,606,449

The decrease in personal services results from vacancy savings in the Human Rights Commission and Appeals Division, and the decrease in operating expenses from general expense reductions in the Appeals and Labor Standards Divisions.

Option A: Continue the Governor's 2 percent reduction in fiscal 1987.

Option B: Take no action.

EMPLOYMENT SERVICES

Budget Items	Fiscal 1987 House Bill 500	Fiscal 1987 Governor's Budget	Difference
F.T.E.	579.9	579.9	0.00
Personal Service	$13,222,945	$13,222,945	$ -0-
Operating Expense	3,752,949	3,752,949	-0-
Equipment	448,275	448,275	-0-
Total Operating Costs	$17,424,169	$17,424,169	$ -0-
Non-Operating Costs	7,514,000	7,453,107	60,893
Total Expenditures	$24,938,169	$24,877,276	$ 60,893
General Fund	$ 334,000	$ 64,107	$ 269,893
Federal Revenue	24,604,169	24,604,169	-0-
Other Funds	-0-	209,000	(209,000)
Total Funding	$24,938,169	$24,877,276	$ 60,893

ISSUES IN GOVERNOR'S BUDGET	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
Gov. 1. 5 Percent Cut		
A. JTPA Program	$(60,893)*	-0-
Gov. 2. Penalty & Interest Monies	$(209,000)	$209,000

*The Governor's budget lists a general fund reduction of $16,700. However, according to OBPP, the above figures are the correct reductions.

ISSUE GOV. 1: 5 PERCENT CUT

The following table shows the fiscal 1987 general fund appropriation in the Job Training Partnership Act Program.

Table 1
JTPA General Fund - Fiscal 1987

Object	General Fund
Dislocated Workers	$125,000
Displaced Homemakers	125,000
Pre-employment Training	84,000
Total	$334,000

As part of a general 5 percent reduction in the Department of Labor and Industry, the Governor proposes reducing pre-employment training grants by $60,893. The grants are used to train workers for existing employment and as federal Job Training Partnership Act (JTPA) matching funds. A decline in federal funds available for pre-employment has reduced the match required. Therefore, reducing the general fund contribution will not jeopardize federal JTPA funds.

ISSUE GOV. 2: UTILIZE PENALTY & INTEREST MONIES

The Governor proposes using penalty and interest monies paid by employers delinquent in unemployment insurance payments to replace the entire $125,000 of general fund for dislocated workers and $84,000 of general fund for pre-employment training. Both are used as Job Training Partnership Act match. As seen in Issue 1, however, $60,893 of the total $84,000 general fund in pre-employment training is eliminated as part of the overall 5 percent reduction in the department. Therefore, these funds have been counted twice in the Governor's budget.

EMPLOYMENT SERVICES

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	572.29	574.54	578.90	579.90	15.36
Personal Service	$11,991,561	$12,506,126	$13,436,908	$13,935,906	11.4
Operating Expense	2,969,331	3,742,676	3,653,492	3,752,949	0.2
Equipment	1,356,720	867,065	527,002	448,275	(48.3)
Total Operating Costs	$16,317,612	$17,115,867	$17,617,402	$18,137,130	6.0
Non-Operating Costs	10,328,922	8,967,473	7,500,300	7,514,000	(16.2)
Total Expenditures	$26,646,534	$26,083,340	$25,117,702	$25,651,130	(1.7)
Fund Source					
General Fund	$ 312,012	$ 379,687	$ 320,300	$ 334,000	(12.0)
Federal Revenue	26,334,522	25,703,653	24,797,402	25,317,130	(1.5)
Total Funds	$26,646,534	$26,083,340	$25,117,702	$25,651,130	(1.7)

ISSUES - Fiscal 1987	General Fund	Other Funds
1. Maintenance of 2% Reductions	$(13,700)	-0-

Employment Services collects and disburses state unemployment funds, acts as an employment agency, provides training, and oversees federal Job Training Partnership Act (JTPA) grants. The division includes the Job Service, Unemployment Insurance, Centralized Services, and JTPA Programs.

The increase of 5.36 FTE results from two factors: 1) the addition of 5.0 FTE to handle the increase in workload anticipated due to the addition of unemployment of parent as a criterion for receiving AFDC payments. All AFDC recipients are required to file with the Job Service under Work Incentive (WIN); and 2) the net addition of .36 FTE for the Montana Career Information System, transferred from the Commissioner of Higher Education.

Personal services rise 11.4 percent due to the increases in FTE, the addition of $258,741 in pay plan, and vacancies equivalent to 44.15 FTE in fiscal 1985.

The division has been upgrading the computer capabilities of local job service offices. The upgrading will continue in fiscal 1987, but at a lower level, resulting in the decrease in equipment of 48.3 percent.

Grants fall 16.2 percent due to a change in accounting for JTPA funds. A portion of these funds was counted twice in fiscal 1985, once when granted by the JTPA Program to the Job Service Program and again when granted by the Job Service Program. The funds are counted only when granted by the JTPA Program in fiscal 1987.

General fund provides match on JTPA grants and state funding of Displaced Homemakers programs. General fund declines 12.0 percent due to the change in funding of 1.0 FTE associated with the administration of JTPA programs in Job Service from general fund to federal funds.

Federal funds decrease 1.5 percent due to changes in JTPA Program accounting. Federal funds would have risen 8.7 percent without this influence due to expected increases in grants in the JTPA Program and increases in operating expenses for the remainder of the division.

ISSUE 1: CONTINUATION OF GOVERNOR'S 2 PERCENT REDUCTIONS

If the Governor's reductions in fiscal 1986 are maintained through fiscal 1987, general fund would be reduced by $13,700. Table 4 on the following page is a first level breakdown of cuts in the fiscal 1986 budget.

Table 4
Governor's Reductions - Employment Services

Budget Item	Fiscal 1986 Appropriation	Governor's Reduction	After Reduction
Personal Service	$13,436,908	$ -0-	$13,436,908
Operating Expense	3,653,492	-0-	3,653,492
Equipment	527,002	-0-	527,002
Operating Expenses	$17,617,402	-0-	$17,617,402
Non-Operating Expenses	7,514,000	13,700	7,500,300
Total Expenditures	$25,131,402	$13,700	$25,117,702

The decrease in non-operating expense results from a reduction in Displaced Homemaker grants in the JTPA Program.

Option A: Continue the 2 percent general fund cuts in fiscal 1987.

Option B: Take no action.

DIVISION OF WORKERS' COMPENSATION

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	167.50	168.00	175.00	175.25	7.25
Personal Service	$3,413,481	$3,610,564	$3,798,514	$3,941,758	9.2
Operating Expense	2,120,513	2,070,734	2,399,820	2,422,879	17.0
Equipment	172,229	124,035	206,502	133,445	7.6
Total Operating Costs	$5,706,223	$5,805,333	$6,404,836	$6,498,082	11.9
Non-Operating Costs	907,613	1,021,268	1,783,901	1,251,158	22.5
Total Expenditures	$6,613,836	$6,826,601	$8,188,737	$7,749,240	13.5
Fund Source					
General Fund	$ 783,743	$ 727,477	$ 100,713	$ 101,448	(86.1)
State Special Revenue	5,761,561	6,032,161	7,864,740	7,422,765	23.1
Federal Revenue	68,532	66,963	223,284	225,027	236.0
Total Funds	$6,613,836	$6,826,601	$8,188,737	$7,749,240	13.5

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
Increased General Fund Revenue		
1. Crime Victims Compensation	$250,000	-0-

The Division of Workers' Compensation enforces occupational safety laws, provides payments to workers injured on the job, monitors private insurers' adequacy of coverage and payment, and provides payments to innocent victims of crime.

FTE increases by 7.25 due to the addition of a .25 FTE secretary to respond to a new requirement that users of explosives be licensed, 4.0 FTE claims examiners and 3.0 FTE legal staff. Personal service costs rise 9.2 percent due to the additional FTE and pay plan of $77,582.

Operating expenses rise 17.0 percent due to increases in indirect charges, general operating expenses, and inflation.

Grants rise 22.5 pereent due primarily to the addition of $150,000 in federal crime victims benefits.

The decrease in general fund of 86.1 percent is due to the replacement of general fund with Resource Indemnity Trust funds to pay benefits to silicotics or their widows in the Silicosis Benefit Program, totaling $580,000 in fiscal 1987.

State special revenue increases 23.1 percent due to the Resource Indemnity Trust Fund substitution and general inereases in Division of Workers' Compensation operating expenses.

Federal funds rise 236 percent due to the addition of federal Crime Victims funds.

ISSUE 1: CRIME VICTIMS COMPENSATION FUND.

The Crime Victims Compensation Fund, administered by the Division of Workers' Compensation, was established by the 1977 Montana Legislature to provide a method of compensating and assisting those persons within the state who are innocent victims of criminal acts and who suffer bodily injury or death.

Moneys for the crime vietims compensation account are obtained from 18 percent of fines assessed and bails forfeited on all offenses as a result of citations or tickets issued by the highway patrol. Prior to fiscal 1978, the 18 percent currently allocated for crime victims was directly deposited to the general fund. Distribution of highway patrol fines is illustrated in Figure 1.

FIGURE 1
DISTRIBUTION OF HIGHWAY PATROL FINES

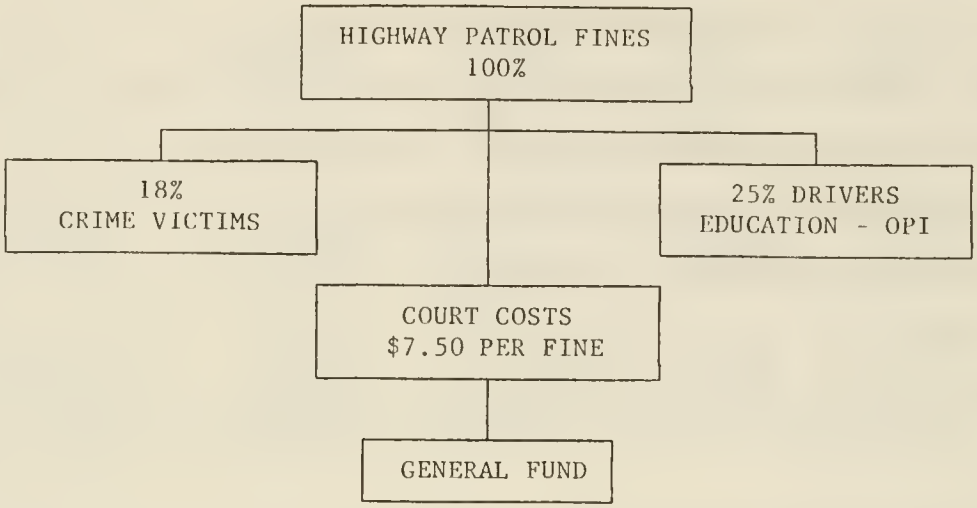


Table 5 shows revenue collected and disbursements made through fiscal 1985, and projected revenue and disbursements in fiscal 1986 and 1987.

Table 5
Crime Victims Fund - Revenue and Disbursements

Fiscal Year	Revenue	Disbursements	Net Operations	Fund Balance
1978	$220,097	$ 18,344	$201,753	$201,753
1979	250,925	116,491	134,434	336,187
1980	293,711	169,772	123,939	460,126
1981	370,833	321,559	49,274	509,400
1982	390,251	329,247	61,004	570,404
1983	500,555	431,260**	92,719	663,124
1984	469,823	397,622	72,201	735,325
1985	484,387	452,476	31,911	767,235
- - - - - - - - - - - - - - - - - -	Projected	- - - - - - - - - - - - - - - - - -		
1986	430,000*	430,000	-0-	267,235***
1987	432,500*	432,500	-0-	267,235

* Prior to fiscal 1986, the division had incorporated interest earned on the Crime Victims Compensation fund in total revenue. Beginning in fiscal 1986, interest will be deposited to the general fund in compliance with 17-6-202(2), MCA.
** Accounting records show a $23,424 adjustment.
*** $500,000 of the fund balance transferred to the general fund in fiscal 1986 as per House Bill 500.

Original projections for the 1987 biennium by the Division of Workers' Compensation anticipated that disbursements from the fund would exceed revenues. The difference would come from the Crime Victims Compensation fund balance, which totaled $767,235 at the end of fiscal 1985. The 1985 legislature fixed the appropriation at the level of anticipated revenue, and transferred $500,000 of the fund balance to the general fund, leaving a fund balance of $267,235.

Beginning in fiscal 1986, the state is also eligible for federal crime victims funds. The federal funding level is contingent upon the level of state expenditure, the federal contribution being no more than 35 percent of the state contribution in the previous federal fiscal year. All state funds must be expended before any federal funds are received. Table 6 shows the federal funds potentially available to the state in the 1987 biennium. Federal funds available in fiscal 1986 are based upon federal fiscal 1984 expenditures. Federal funds available in fiscal 1987 are based upon federal fiscal 1985 expenditures.

Table 6
Federal Crime Victims Funds
Fiscal 1986 - 1987

Base Federal Fiscal Year	Benefits Paid	Matching Rate	Potential Federal Funds	State Funds Appropriated	Total Potential Crime Victims Funds
1984	$368,982	.35	$129,144	$430,000	$559,144
1985	$387,427	.35	$135,599	$432,500	$568,099

The option to be considered is: does the legislature wish to deposit all or a portion of the balance in the Crime Victims Compensation Fund to the general fund?

Option A: Transfer $250,000 of the fund balance to the general fund. If revenues and expenses are equal in the 1987 biennium, this option maintains a fund balance of $17,235.

DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES

Budget Items	Fiscal 1987 House Bill 500	Fiscal 1987 Governor's Budget	Difference
FTE	1,132.07	1,119.57	12.5
Personal Service	$ 24,785,883	$ 24,191,913	$ 593,970
Operating Expense	9,305,485	9,145,798	159,687
Equipment	54,500	51,425	3,075
Total Operating Costs	$ 34,145,868	$ 33,389,136	$ 756,732
Non-Operating Costs	206,229,476	201,294,139	4,935,337
Total Expenditures	$240,375,344	$234,683,275	$5,692,069
General Fund	$ 77,263,254	$ 71,929,024	$5,334,230
State Special	7,156,887	6,799,048	357,839
Federal Revenue	155,955,203	155,955,203	-0-
Total Funding	$240,375,344	$234,683,275	$5,692,069

ISSUES IN GOVERNOR'S BUDGET	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
Gov. 1. 5 Percent Cut		
A. Assistance Payments	$(66,162)	-0-
B. Social Services	$(392,968)	-0-
C. Eligibility Determination	$(79,943)	-0-
D. Administration	$(63,264)	-0-
E. County Assumption	$(9,191)	-0-
F. Medical Assistance	$(6,194)	$(329,661)
G. Audit and Compliance	$(80,124)	-0-
H. Vocational Rehabilitation	$(22,017)	$(28,178)
I. Visual	$(6,154)	-0-
J. Developmental Disabilities	$(30,715)	-0-
Total 5 Percent Cut	$(756,732)	$(357,839)
Gov. 2. Benefit Freeze		
A. Assistance Payments	$(665,513)	-0-
B. Social Services	$(194,210)	-0-
C. Medical Assistance	$(599,541)	-0-
D. Vocational Rehabilitation	$(9,568)	-0-
E. Visual Services	$(4,419)	-0-
F. Developmental Disability	$(546,732)	-0-
Total Benefit Freeze	$(2,019,983)	-0-
Gov. 3. General Assistance Benefits		
A. Assistance Payments	$(1,100,000)	-0-

Gov. 4.	Other Benefits		
	A. Assistance Payments	$(100,000)	-0-
	B. Social Services	$(107,750)	-0-
	C. Vocational Rehabilitation	$(14,032)	-0-
	D. Visual Services	$(13,786)	-0-
	Total Other Benefits	$(235,568)	-0-
Gov. 5.	Federal Match		
	A. Assistance Payments	$(290,635)	-0-
	B. Social Services	$(11,886)	-0-
	C. Medical Assistance	$(919,426)	-0-
	Total Federal Match	$(1,221,947)	-0-

ISSUE GOV. 1: 5 PERCENT CUT - GENERAL

All cuts made as part of the 5 percent reduction are in the operating portion of the program budgets. Fund reductions contained in the Governor's budget only include general fund and county funds. However, because many of the administrative programs are matched with federal funds at 50 percent and in some cases up to 80 percent, the potential loss of federal funds could far exceed the general fund reduction.

Within their operating budgets, all programs will experience a reduction in data processing costs, rent, and an increase in vacancy savings. Rent and data processing cost reductions reflect new cost schedules promulgated by the Department of Administration for fiscal 1987. For the entire department during fiscal 1987, rent costs are reduced $5,262, data processing costs are reduced $9,682, and vacancy savings are increased by $290,538.

Assistance Payments

In addition to reductions in vacancy savings, rent and data processing, for fiscal 1987 the assistance payments program will reduce its legal services contract with the Montana Legal Services Corporation from $100,000 to $50,000. This reduction in legal services is discussed under Issue 4 of the LFA Budget Analysis.

Social Services

The Social Services Program includes the largest portion of the department's additional vacancy savings costs ($138,822). Additional general fund personal service savings of $219,146 will accrue by not filling 12 new social worker positions authorized for fiscal 1987. Elimination of these positions is discussed under Issue 5 of the LFA Budget Analysis. A fiscal 1987 $272,156 training contract the department maintains with the University of Montana will be reduced by $35,000 or 12.8 percent. The training contract is designed to provide ongoing technical assistance to program staff as changes occur in state and federal regulations. Although the reduction in the training contract will reduce some training opportunities for social services staff, it does not appear likely that this reduction will seriously jeopardize any direct services.

Eligibility Determination

The 3.5 new eligibility technician FTE authorized for fiscal 1987 have been eliminated resulting in general fund savings for the program of $31,438. Elimination of these new positions is discussed under Issue 3 of the LFA Budget Analysis.

Administration

In addition to vacancy savings, rent, and data processing reductions, major reductions in the administration budget for fiscal 1987 include $6,297 in contract services and travel from reducing the number of out-of-state trips and conferences, $7,800 in repair and maintenance by removing selected items from their maintenance contract and delaying the scheduled repair of other items, and $4,075 in other miscellaneous items and equipment purchases.

County Assumption

The only reduction for this program is a $9,191 reduction in food stamp issuance costs. Department of Social and Rehabilitation Services states that, through

increased efficiency in the program, this amount can be reduced without jeopardizing services.

Medical Assistance

In addition to operating cost reductions for vacancy savings and data processing, $329,661 of county mill levy funds are reduced from the medicaid-other program. Because these funds are treated as general fund for federal matching purposes, the net reduction in available medicaid-other funds is actually $980,550. However, as is discussed under Supplemental Funds in the LFA Budget Analysis, the department is already facing a 1987 biennium medicaid-other supplemental of $10.7 million.

Audit and Compliance

Three FTE will be left vacant to generate general fund savings of $10,473 during fiscal 1987. According to Department of Social and Rehabilitation Services, elimination of these positions may result in "some degradation of review quality or timeliness but it should be minimal." Travel and equipment associated with these positions totaling $21,768 are also eliminated.

Developmental Disabilities

In addition to reductions in rent, data processing, and vacancy savings, the developmental disabilities program will also reduce operating costs by 5 percent or $15,284.

The remaining programs in the department (Vocational Rehabilitation, Visual Services) only experience reductions in vacancy savings, data processing, and rent.

ISSUE GOV. 2: BENEFIT FREEZE LEVELS

This recommendation would freeze most Department of Social and Rehabilitation Services benefit rates at the fiscal 1986 level. According to the department, freezing the rates would not result in any reduction in services. For those benefits that are administered by the state or are essentially a cash payment, such as AFDC and gen-

eral assistance, there would be no reduction in caseload. However, many of the benefit programs and services are provided under a negotiated contract with private agencies who may or may not be willing to accept a freeze in rates. For example, developmental disabilities programs, day care services, extended employment, training, and domestic violence programs are all provided through private corporations that contract annually with the department to provide services. These private agencies might opt not to continue services without a rate increase or to provide a lower quality of service to fewer clients.

In addition to the rate freeze, due to lower than expected caseloads the executive projects under-expenditures during fiscal 1987 in the day care, subsidized adoption, and supplemental security income programs for a total additional general fund savings of $90,000.

For those programs that are joint state/federal funded, the reductions presented in the Governor's budget do not reflect the magnitude of the total cuts that will be made. For example, AFDC is approximately 31 percent general fund, 2 percent county funds, and 67 percent federal fund. Thus, the actual reduction in the AFDC program as proposed by the Governor would be $1,489,000. For the medicaid-other program the actual total reduction including the federal contribution would equal $1,317,000.

ISSUE GOV. 3: GENERAL ASSISTANCE BENEFITS

Under this recommendation, general assistance benefits for able-bodied recipients would be limited to two months in any 12 month period. However, the effective date for implementation of this proposal would be postponed until October 1, 1986 to allow all existing general assistance recipients an opportunity to complete an 80 hour intensive job training program. House Bill 12, passed during the March 1986 special session with an effective date of July 1, 1986, requires all able-bodied general assistance recipients to participate in a job training and job search program as a condition of

receiving their general assistance payment. After October 1, 1986 able-bodied individuals could receive benefits only for the month necessary to complete the job training program and for one additional month after completing the program while they sought work. The executive estimates that this policy change will reduce the average monthly general assistance caseload by approximately 438 cases for a general fund savings of $1,100,000 during fiscal 1987. However, because this recommendation incorporates a significant reduction in benefits, there is the possibility of a court challenge which could delay implementation and ultimately substantially reduce any potential savings during fiscal 1987.

The General Assistance Program is also discussed under Supplemental Reduction Issue 1 of the LFA Budget Analysis.

ISSUE GOV. 4: OTHER BENEFIT REDUCTIONS

This recommendation would further reduce selected benefit programs beyond the level of the rate freeze. The following table shows the fiscal 1987 appropriation level and the proposed reductions for each benefit program.

Table 1
Comparison of Fiscal 1987 and Proposed Fund Reductions

Benefit	Fiscal 1987 Appropriation	- - - Proposed Reduction - - - General Fund	Other Funds
Emergency General Assist.	$ 100,000	$100,000	$ -0-
Big Brothers & Sisters	226,000	81,500	27,166
Home Health Care	31,249	15,000	-0-
Visual Medical	75,696	13,786	-0-
Alcohol and Drug	225,000	11,250	-0-
Vocational Rehabilitation	235,000	8,600	43,000
Extended Employment	298,768	5,432	-0-
Total	$1,191,713	$235,568	$70,166

Emergency General Assistance

This benefit was intended to give temporary assistance to those able-bodied general assistance recipients who would have lost eligibility under House Bill 843 proposed during the 1985 regular session. Because the supreme court prohibited Department of Social and Rehabilitation Services from implementing House Bill 843, the appropriation is not needed.

Big Brothers and Sisters

This recommendation reduces the fiscal 1987 appropriation by approximately 50 percent. A similar issue is presented under Issue 7 of the LFA Budget Analysis.

Home Health

Currently Department of Social and Rehabilitation Services contracts with the Lewis and Clark County Health Department for social services to individuals who would otherwise need nursing home care. Under this recommendation, the contract would be discontinued and the services would be provided through existing Department of Social and Rehabilitation Services staff.

Visual Medical

The Visual Medical Program pays medical bills for individuals with vision related problems. This proposal reduces the program by approximately 18 percent with a corresponding reduction in the amount of bills that can be reimbursed.

Alcohol And Drug Treatment

This recommendation reduces the Alcohol and Drug Treatment program by 5 percent. This issue is discussed under Issue 9 of the LFA Budget Analysis.

Case Services

Services provided under this program are vocational rehabilitation services. Although general funds are reduced from this program, because the available federal

funds are over matched with other state funds, there should be no appreciable reduction in services.

Extended Employment

This program funds sheltered employment for severly handicapped individuals who do not qualify for regular vocational rehabilitation programs. During fiscal 1986, the average cost per client was budgeted at $5,000. This reduction may result in one client not receiving services.

ISSUE GOV. 5: INCREASED FEDERAL MATCH RATE

During the 1985 legislative session, the federal matching rate was anticipated to be 66.38 percent for fiscal 1987. However, due to a recent federal policy change, Montana's federal matching rate will increase from 66.38 percent to 67.175 percent for fiscal 1987. The executive estimates this increased rate will result in a general fund savings of $1,221,947. This issue is discussed further under Supplemental Reduction Issue 4 in the LFA Budget Analysis.

DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	Change FY85-FY87
FTE	1043.82	1044.82	1103.07	1132.07	87.25
Personal Service	$ 22,301,439	$ 23,297,656	$ 24,630,974	$ 26,169,572	12.3
Operating Expense	7,790,028	10,770,493	10,414,187	9,305,485	(13.6)
Equipment	359,998	295,481	125,141	54,500	(81.6)
Total Operating Costs	$ 30,451,465	$34,363,630	$ 35,170,302	$ 35,529,557	3.4
Non-Operating Costs	170,141,879	182,903,759	201,802,923	203,120,049	11.0
Approp. Exp.	$200,593,344	$217,267,389	$236,973,225	$238,649,606	9.8
Supplemental Exp.	-0-	-0-	-0-	20,498,897	---
Total Expenditures	$200,593,344	$217,267,289	$236,973,225	$259,148,503	19.3
Appropriated Funds					
General Fund	$ 67,428,279	$ 71,814,450	$ 75,236,471	$ 77,360,206	7.7
State Special Revenue	6,148,036	7,511,414	7,069,832	7,156,887	(4.7)
Federal Revenue	127,017,029	137,941,525	154,666,922	154,132,513	11.7
Total	$200,593,344	$217,267,389	$236,973,225	$238,649,606	9.8
Supplemental Funds					
General Fund	-0-	-0-	-0-	$ 7,102,865	---
State Special Revenue	-0-	-0-	-0-	-0-	---
Federal Revenue	-0-	-0-	-0-	13,396,032	---
Total	$ -0-	$ -0-	$ -0-	$ 20,498,897	---
Total Funds					
General Fund	$ 67,428,279	$ 71,814,450	$ 75,236,471	$ 84,463,071	17.6
State Special Revenue	6,148,036	7,511,414	7,069,832	7,156,887	(4.7)
Federal Revenue	127,017,029	137,941,525	154,666,922	167,528,545	21.4
Total Funds	$200,593,344	$217,267,389	$236,973,225	$259,148,503	19.3

SUPPLEMENTAL REQUIREMENTS - - - - - - - - - - - - - - - - - - - Fiscal 1987 - - - -

	General Fund	Other Funds
A. Current Supplemental Funding with no Program Changes		
General Assistance	$ 549,006	$ -0-
Aid to Families with Dependent Children[1]	2,905,440	6,273,015
Medicaid - Other	3,648,419	7,123,017
Total	$7,102,865	$13,396,032

[1]Based on SRS caseload projection

B. Program Changes for Reduction in Supplemental Funding Requests	General Fund	Other Funds
1. General Assistance		
Option A: Freeze payments at 1986 level	$(237,694)	-0-
Option B1: Reduce payments to 45% poverty index	$(246,765)	-0-
Option B2: Reduce payments to 43% poverty index	$(491,578)	-0-
Option B3: Reduce payments to 40% poverty index	$(858,797)	-0-
2. Adjust AFDC Payments		
Option A: Freeze payments at 1986 level	$(759,572)	$(1,637,071)
Option B1: Reduce payments to 45% poverty index	$(688,243)	$(1,483,338)
Option B2: Reduce payments to 43% poverty index	$(1,193,148)	$(2,571,536)
Option B3: Reduce payments to 40% poverty index	$(1,950,505)	$(4,203,835)
3. Adjust AFDC Eligibility Standard		
Option A: Reduce gross income standard	$(325,452)	$(964,126)
4. Revised Federal Match		
Option A: Adjust according to revised AFDC level	$(1,240,389)	$1,240,389
Option B: Adjust according to current AFDC level	$(1,159,904)	$1,159,904

ISSUES - Fiscal 1987	General Fund	Other Funds
1. Surplus Assumed County Millage		
Option A: Replace General Fund with Millage	$(800,000)	$800,000
2. Personnel Reduction		
Option A: Eliminate all vacant positions	$(90,851)	$(149,864)
Option B: Eliminate 8 positions	$(55,891)	$(85,336)
3. Emergency General Assistance		
Option A: Eliminate funding	$(100,000)	-0-
4. Eligibility Technicians		
Option A: Apply enhanced federal funding	$(11,964)	$134,538
Option B: Stop addition of 6 FTE in fiscal 1987	$(32,303)	$60,597
5. Legal Services		
Option A: Eliminate special contract for G.A. recipients	$(100,000)	-0-
Option B: Eliminate special contract for elderly assistance	$(50,000)	-0-
Option C: Eliminate both contracts	$(150,000)	-0-
6. Additional Social Workers		
Option A: Eliminate twelve	$(222,377)	$(31,768)
Option B: Eliminate six	$(111,187)	$(15,884)
7. Big Brothers and Sisters		
Option A: Reduce state match to 50 percent	$(56,500)	-0-
8. Foster Care Services		
Option A: Reduce clothing allowance by $50	$(21,295)	$(41,337)
Option B: Reduce to projected expenditure level	$(58,764)	$(114,070)
9. Alcohol and Drugs		
Option A: Reduce funding 25 percent	$(56,250)	-0-
Option B: Reduce funding 50 percent	$(112,500)	-0-
Option C: Reduce funding 75 percent	$(168,750)	-0-
Option D: Eliminate program	$(225,000)	-0-
10. Waiver Services		
Option A: Eliminate expanded services	$(229,882)	$(397,420)
11. Montana Youth Treatment Center		
Option A: Reduce Medicaid Budget	$(651,993)	$(1,350,441)

ISSUES - CONTINUED

	General Fund	Other Funds
12. Non-Residential Services for Developmentally Disabled		
Option A: Reduce 5 percent	$(878,929)	-0-
Option B: Reduce 10 percent	$(1,757,857)	-0-
Option C: Reduce 15 percent	$(2,636,786)	-0-
Option D: Selective reductions	$(1,144,551)	-0-
13. Expanded Services for Developmentally Disabled		
Option A: Provide only for residential services	$(708,700)	-0-
14. Reorganization of Developmentally Disabled Services	N/A	N/A

Appropriated Funds

The department of Social and Rehabilitation Services administers programs in the area of human services. Services include assistance payments to recipients of Aid to Families with Dependent Children (AFDC), foster home services, medicaid and other benefits to the aged and indigent, rehabilitation services for the vocationally and visually handicapped, and community based services for the State's developmentally disabled.

The increase between fiscal 1985 and fiscal 1987 is primarily in non-operating costs which are grants and benefits. Total funds increase $21.3 million or 9.8 percent from fiscal 1985 to fiscal 1987. However, general fund only increases 7.7 percent while state special revenue decreases 4.7 percent and federal revenue increases 11.7 percent. State special revenue included in the Department of Social and Rehabilitation Services budget is almost entirely received from the mill levy in support of state assumption of county welfare programs. The significant increase in federal funds is partially the result of a change in the state/federal match rate for federal funds in the AFDC and medicaid programs. During fiscal 1985, the federal match rate was 63.69 percent federal funds and will become 66.38 percent in fiscal 1987. Because approximately 62 percent of the department's total budget is for AFDC and medicaid, this increase in the federal match rate will shift a portion of the cost of those programs from state to federal sources. A second factor contributing to the proportionately larger increase of federal funds over general fund is that the most

significant programmatic increases between fiscal 1985 and fiscal 1987 occurred in the AFDC and medicaid programs that are funded with approximately two-thirds federal funds and one-third state funds, while programs that are entirely general funded received only minor increases.

The major program increases between fiscal 1985 and 1987 include: an increase of $3.9 million in AFDC as a result of increased caseloads and the addition of the unemployed parent as an eligible recipient; increases of $.9 million in the Social Services program for increased foster care, expansion of community services for the elderly, and the addition of 24 social workers over the 1985 biennium level; $3.4 million for expansion of current services to the developmentally disabled and new services to be provided for reduction of the developmentally disabled waiting list; increased medicaid costs of $17.0 million primarily as a result of the increased AFDC caseload, the addition of the new Youth Treatment Center in Billings, and the projected increase in nursing home care days. The balance of the increase between fiscal 1985 and 1987 is accounted for by inflation and minor increases in other program and operational costs.

Supplemental Funds

Current estimates indicate the department will require an additional $20.5 million in supplemental funding if no changes are made to reduce the costs of AFDC, medicaid, and the General Assistance Program. The general assistance caseload continues to rise and despite a $3.6 million supplemental appropriated during the last special session for the program, indications are that $549,006 in additional general fund will be required. With the additional funding, the costs of this program will have increased by $1.3 million from the fiscal 1985 level, or an increase of 30.8 percent.

The primary cause for the additional increase in both the AFDC and medicaid programs is the increased AFDC caseload. According to Department of Social and Rehabilitation Services projections, the AFDC caseload for the 1987 biennium will be

2,048 cases above the level originally projected during the 1985 legislative session. Because each AFDC case is also automatically eligible for medicaid benefits, increases in the AFDC caseload directly impact the medicaid budget.

SUPPLEMENTAL ISSUE 1: GENERAL ASSISTANCE PAYMENT LEVELS

The general assistance program is intended to provide financial assistance to needy persons who do not qualify for any other state or federal benefit program. For example, an able-bodied single female age 35 with no dependent children and no income would not qualify for AFDC payments but would be eligible for general assistance. Likewise, a married couple with no income who were both under 60 years of age, not disabled, and with no dependent children in the home would not qualify for either AFDC or SSI but would be eligible for general assistance. Table 1 presents the maximum monthly income standard that a family must meet to be eligible for general assistance.

Table 1
Monthly Income Standard for General Assistance
Fiscal 1986 and 1987

Family Size	Fiscal 1986	Fiscal 1987
1	$212	$219
2	284	296
3	358	372
4	432	449
5	506	526
6	580	603

If the family meets the maximum income standard shown in table 1, then the amount of the monthly payment is determined by subtracting any family income from the maximum income standard. For example, a family of two with a monthly income of $150 would receive a general assistance payment of $134 in fiscal 1986. All general assistance recipients are also eligible for other subsidies such as food stamps and fuel assistance grants. Additionally, individuals who meet the minimum income standards

to qualify for general assistance would also qualify for the state medical assistance program.

Funding for the General Assistance Program is 100 percent general fund in the 12 counties where the state has assumed administration of the county welfare programs and 100 percent county funds in the other 44 counties. Two factors determine general assistance costs: the size of the caseload; and the amount of the average monthly payment. Table 2 shows the growth of the general assistance caseload and average monthly payment for the 12 assumed counties from fiscal 1982 through fiscal 1987.

Table 2
General Assistance Caseload, Monthly Payment Level, and Total Cost
Fiscal 1982 through 1987

Fiscal Year	Caseload	Payment Level	Total Cost
1982	713	$117	$1,001,052
1983	947	140	1,590,960
1984	1,205	141	2,038,779
1985	1,704	207	4,245,721
- Projected -			
1986	1,916	210	4,835,393
1987	2,195	218	5,755,045

As may be derived from table 2, between fiscal 1984 and 1985 the average monthly caseload increased by 42 percent and the average payment level increased 47 percent. The effect of such significant growth in both caseload and payment level was a $2,206,942 or 108 percent increase in total costs. A major factor that increased the general assistance costs in the assumed counties was a lawsuit filed in February, 1984 against Department of Social and Rehabilitation Services on behalf of the welfare recipients that changed the way payment levels are established.

The Butte Community Union filed suit in court charging that Department of Social and Rehabilitation Services rules for administration of the General Assistance

Program failed "to meet even the bare necessities of life", that the rules resulted in wide disparity among the assumed counties in determining the amount of the general assistance payment, and asked the court to require Department of Social and Rehabilitation Services to establish payment standards that were uniform across the assumed counties and that were based on the actual needs of the individual applicants. In April, 1984 The First District Court issued a ruling that required Department of Social and Rehabilitation Services to establish new rules for general assistance that set the monthly payment level in all assumed counties at the AFDC maximum standard. In effect, this changed the concept of the general assistance program from one that set the payment level based on the individual family circumstance to a "flat grant" program. Department of Social and Rehabilitation Services currently administers general assistance in accordance with the terms of the lawsuit settlement, and in the assumed counties all general assistance recipients now receive payments which are equivalent to the maximum AFDC payment level.

In an effort to control the escalating general assistance costs during the 1985 legislative session, Department of Social and Rehabilitation Services proposed significant changes to the eligibility criteria for the program. All able-bodied individuals under the age of 35 would be eliminated from the program, and able-bodied individuals between the ages of 35 and 50 would be restricted to only three months of general assistance benefits during any 12 month period. Taking into account both the elimination of the able-bodied under 35 and the restriction to three months of eligibility for able-bodied individuals between 35 and 50, Department of Social and Rehabilitation Services estimated that these changes would reduce the overall caseload by 60 percent for a general fund savings of $6.1 million in general assistance costs over the 1987 biennium. The proposed changes were incorporated into House Bill 843 and passed by the legislature with an effective date for implementation of July 1, 1985. Based on passage of the bill, the Department of Social and Rehabilitation Services appropriation for general assistance was adjusted to

reflect the lower projected caseload. Table 3 shows the original Department of Social and Rehabilitation Services request for general assistance and the modified appropriation based upon passage of House Bill 843.

Table 3
Comparison of Original SRS Request and Final General Assistance Appropriation
1987 Biennium

SRS Request	Fiscal 1986	Fiscal 1987	Biennium
Caseload	1,844	2,071	
Payment	$ 256	$ 266	
Total Cost	$5,672,734	$6,619,330	$12,292,064
Appropriation			
Caseload	904	1,033	
Payment	$ 256	$ 270	
Total Cost	$2,777,906	$3,347,068	$ 6,124,974
Difference			
Total Cost	$2,894,828	$3,272,262	$ 6,167,090

On June 3, 1985 the Butte Community Union filed an amended complaint to their original suit and challenged the constitutionality of House Bill 843 as passed by the 1985 legislature. The suit was filed in the First District Court, Lewis and Clark County, and requested the court to issue a preliminary injunction forbidding Department of Social and Rehabilitation Services from implementing those parts of House Bill 843 that would have eliminated benefits to able-bodied individuals. Following a hearing and briefing on the issues, the court issued a preliminary injunction on July 1, 1985, the date House Bill 843 was to go into effect. On July 18, 1985 Department of Social and Rehabilitation Services filed an appeal of the District Court's preliminary injunction with the Montana Supreme Court. However the Supreme Court did not issue their ruling until January 16, 1986. In their ruling, the Supreme Court did not find that the Montana Constitution establishes a fundamental right to welfare, but the court did uphold the district court's preliminary injunction

forbidding Department of Social and Rehabilitation Services from implementing the provisions of House Bill 843 that would have denied benefits to able-bodied under the age of 35 or restricted benefits to able-bodied between the ages of 35 and 50.

Because of the restriction on implementing the provisions of House Bill 843, the Department of Social and Rehabilitation Services appropriation for the General Assistance Program will be overspent. The following table shows the original appropriation and estimated caseload, SRS's estimate of the additional cases and costs (made during the March, 1986 special session of the legislature when the department requested and received a $3,600,000 supplemental appropriation for general assistance), and the most current projected costs and caseload.

Table 4
Estimated Costs and Projected Caseloads for General Assistance
1987 Biennium

	Fiscal 1986 Caseload	Fiscal 1986 Costs	Fiscal 1987 Caseload	Fiscal 1987 Costs	1987 Biennium Costs
Original Approp.	904	$2,777,906	1,033	$3,347,068	$6,124,974
Supplemental Approp.	938	1,851,988	920	1,776,960	3,638,948
Total Appropriation	1,842	$4,629,894	1,953	$5,124,028	$9,763,922
Current Projection	1,902	4,766,754	2,124	5,536,174	10,302,928
Projected Deficit	60	$ (136,860)	171	$ (412,146)	$ (539,006)

Current projections indicate that even with the $3.6 million supplemental, Department of Social and Rehabilitation Services will require an additional $549,006 if no adjustments are made to the General Assistance Program.

As is the case with AFDC, general assistance payment levels are set by the legislature as a percentage of the federal poverty index. According to Department of Social and Rehabilitation Services attorneys, because both the AFDC and general assistance programs are intended to serve similar indigent populations and are based on a similar needs tests, the payment levels must also be comparable to avoid violation

of the equal protection clause of the constitution. Therefore, no adjustment in the payment level can be made to the General Assistance Program unless a similar adjustment is made to AFDC. If the legislature were to make reductions in the AFDC payment level as described under Issue 3, then payment levels for the general assistance program would also be reduced to the levels shown in table 8 (page 15) for AFDC and corresponding reductions and savings could be made in the general assistance program. The following table shows the general fund savings if the general assistance payments were reduced to various percentages of the poverty index.

Table 5
General Funds Savings if General Assistance Payments Were Reduced to 40, 43, and 45 Percent of The Poverty Index

	Freeze at Fiscal 1986	45% Poverty	43% Poverty	40% Poverty
Savings	$237,694	$246,765	$491,578	$858,797

Option A: Freeze payment levels at the fiscal 1986 Level. In conjunction with a similar freeze in AFDC, the legislature could freeze the general assistance payments at the fiscal 1986 level. General fund savings for fiscal 1987 would be $237,694.

Option B: The legislature could reduce the general assistance payment level as a percentage of the poverty index.

1. At 45% of the poverty index general fund savings are $246,765.
2. At 43% of the poverty index general fund savings are $491,578.
3. At 40% of the poverty index general fund savings are $858,797.

SUPPLEMENTAL ISSUE 2: ADJUST AFDC PAYMENT LEVEL

Aid To Families With Dependent Children (AFDC) is a cash assistance program for needy families with dependent children. The AFDC program is funded with 34

percent general fund, 2 percent county funds, and 64 percent federal Title IV-A funds. Two factors determine the overall costs of this program: the caseload size and the average monthly payment level. The AFDC caseload size is a function of a complex set of eligibility regulations and the general economic conditions of the state. Adjustment of the AFDC caseload is discussed under Issue 4.

The AFDC payment level is established by the legislature. The 1985 legislature set the maximum monthly payment at a level projected to equal 47 percent of the poverty index calculated by the federal government and published annually by the Department of Health and Human Services. The following table shows the maximum monthly payment level for fiscal years 1985 through 1987 by family size at 47 percent of the federal poverty index.

Table 6
Maximum AFDC Monthly Payment Level
Fiscal 1985 through 1987

Family Size	Fiscal 1985	Fiscal 1986	Fiscal 1987	% Change 1985-87
1	212	212	219	3.3
2	279	282	296	6.1
3	332	354	372	12.0
4	425	426	449	5.6
5	501	501	526	5.0
6	564	570	603	6.9
Average Payment	312	322	335	7.4

The average payment level is the average of all payments to AFDC recipients after adjustments are made for earned income, resources, and family size. In addition to the AFDC payment, all AFDC recipients qualify for medicaid, and most receive other benefits such as assistance with fuel bills, food stamps, and day care. During March, 1986, Department of Social and Rehabilitation Services calculated the value of the average total benefits received by AFDC clients to be $923.30 per month. The

following table compares the 1987 biennium appropriation and the current Department of Social and Rehabilitation Services projections of AFDC caseload and total costs.

Table 7
Comparison of 1987 Biennium AFDC Appropriation,
Projected Caseload, and Projected Total Costs

Fiscal 1986			
Legislative Appropriation	Cases	Average Payment	Total Cost
Regular AFDC	7,490	$311.47	$27,994,977
Unemployed Parent	450	422.05	2,279,100
Total	7,940		$30,274,077
Current Projections			
Regular AFDC	8,120	$318,27	$31,012,229
Unemployed Parent	543	415.47	2,707,203
Total	8,663		$33,719,432
Difference	723		$ 3,445,355
Fiscal 1987			
Legislative Appropriation	Cases	Average Payment	Total Cost
Regular AFDC	7,483	$329.64	$29,097,516
Unemployed Parent	600	443.00	3,189,600
Total	8,083		$32,287,116
Current Projections			
Regular AFDC	8,753	$329.64	$34,624,067
Unemployed Parent	655	432.08	3,396,149
Total	9,408		$38,020,216
Difference	1,325		$ 5,733,100
1987 Biennium			
Projected 1987 Biennium Deficit			$ 9,178,455

Current Department of Social and Rehabilitation Services projections of the average monthly caseload for fiscal 1986 are 723 cases or 9 percent above the level used to calculate the fiscal 1986 appropriation and the projected fiscal 1987 caseload is 1,325 cases or 16 percent above the level used to calculate the 1987 appropriation. Of the $9.2 million projected 1987 biennium deficit, approximately $3.1 million is general fund.

Under the current Administrative Rules of Montana 46.10.405 entitled "Adjustment Of Assistance Payments To Available Funds", Department of Social and Rehabilitation Services is authorized to adjust the AFDC payment level according to funds available.

> When funds are not available to meet full budget deficiency payment or to meet medical benefits in full, payments will be reduced on an equitable basis, applying in all counties of the state. The reduction will be percentage reductions from the full budget requirements in accordance with funds available.

During the 1985 biennium, the Department of Social and Rehabilitation Services implemented the provisions of this administrative rule and froze the fiscal 1985 payments at the fiscal 1984 level. The department has not chosen to implement this rule in fiscal 1986 when faced with a $3.4 million deficit. To reduce the projected 1987 biennium deficit, the legislature could require Department of Social and Rehabilitation Services to implement this rule and adjust the fiscal 1987 average payment levels for AFDC. The following table shows the effect of reducing the fiscal 1987 AFDC payment levels to various percentages of the federal poverty index. To save the need for additional funds in fiscal 1987, the payments would have to be reduced to 40 percent of the poverty index if the SRS's projections are accurate.

Table 8
Payment Levels by Family Size at 47, 45, 43, and 40 Percent of The Poverty Index
Fiscal 1987

Family Size	Freeze at Fiscal 1986 Level	47% Poverty	45% Poverty	43% Poverty	40% Poverty
1	$212	$219	$209	$200	$186
2	282	295	282	270	251
3	354	371	355	340	316
4	426	448	429	410	381
5	501	524	502	480	446
6	570	601	575	549	511
Unemployed Parent	405	417	407	389	362

Table 9 shows the funds saved during fiscal 1987 if the AFDC payment levels were reduced to various percentages of the poverty index.

Table 9
Savings by Fund Source If AFDC Payments Were Reduced by 45, 43, and 40 Percent of The Poverty Index

Options	General Funds	County Funds	Federal Funds	Total Funds
Freeze	$ 759,572	$ 49,855	$1,587,216	$2,396,643
45%	688,243	45,173	1,438,165	2,171,581
43%	1,193,148	78,313	2,493,233	3,764,694
40%	1,950,505	128,023	4,075,812	6,154,340

Option A: Require Department of Social and Rehabilitation Services to freeze the AFDC payment levels at the fiscal 1986 level for a general fund savings

in fiscal 1987 of $759,572.

Option B: Reduce the AFDC payment level as a percentage of the poverty index.

1. At 45% of the poverty index general fund savings are $688,243.
2. At 43% of the poverty index general fund savings are $1,193,148.
3. At 40% of the poverty index general fund savings are $1,950,505.

SUPPLEMENTAL ISSUE 3: ADJUSTMENT OF AFDC ELIGIBILITY STANDARDS

The AFDC program is a joint state and federal cash assistance program for low income families who have one or more dependent children in the home. In addition to a cash assistance payment, federal regulations stipulate that all members of the AFDC family unit are also eligible for medicaid. Although federal funds cover over 60 percent of the cost of both AFDC and medicaid, states are allowed considerable flexibility in establishing the eligibility criteria for AFDC. Three financial criteria are used to determine eligibility for AFDC payments and thus medicaid benefits: the need standard, the gross maximum income level, and the payment standard. Table 10 presents the need standard, the gross maximum income allowable (185% of the need standard), and payment standard for Montana and six other western states in effect during fiscal 1984.

Table 10
Monthly Need and Payment Standards For
Determining AFDC and Medicaid Eligibility During Fiscal 1984

	- - - - 2 Person Family - - - -			- - - - 4 Person Family - - -		
State	Need	Gross Income	Payment	Need	Gross Income	Payment
Utah	$531	$982	$276	$772	$1,428	$401
Idaho	446	825	245	627	1,160	344
Montana	337	623	279	513	949	425
Wyoming	320	592	320	390	721	390
Colorado	307	567	307	470	869	470
North Dakota	289	534	289	437	808	437
South Dakota	280	518	280	361	668	361

First, under very broad federal guidelines, the state must establish a need standard. The need standard is the amount of money a state determines essential to meet a minimum standard of living in that state for a specified family size. The federal regulations which a state must follow in establishing a need standard are so broad that states may use any method considered reasonable. As may be seen from table

10, the need standards vary considerably among the seven states ranging from a high of $531 for a family of two in Utah down to $280 in South Dakota.

The second criteria used to determine AFDC eligibility is the gross maximum income allowable. The gross income level is the maximum amount of income a family unit may receive before any deductions are made and still qualify for AFDC. The only restriction federal regulations place on the state in determining the gross monthly income level is that no family unit whose gross income exceeds 185 percent of the state's established need standard for that family size may be eligible for AFDC. Most states, including Montana, set the gross monthly income level at 185 percent of the need standard.

The third criteria is the payment standard. The payment standard is the maximum amount of cash assistance the state will pay a specific size family unit that qualifies for AFDC. The only restriction the federal government places on the payment standard is that it must be greater than the payment level in effect on July 1, 1969 for comparable family size. In Montana, the payment standard has been set by the legislature as a percentage of the federal poverty index. For the 1987 biennium, the payment standard has been set at 47 percent of the poverty index.

Table 11 shows hypothetical examples of the calculation of AFDC eligibility for families of two, three, and four members.

Table 11
Calculation of AFDC Eligibility for Three Hypothetical Families

	Family of 2	Family of 3	Family of 4
Gross Income Standard	$631	$792	$951
Family Income	440	800	925
Deductibles			
Work Allowance	75	-0-	75
Child Care	160	-0-	320
Net Income	$205	$-0-	$530
Need Standard	$341	$-0-	$514
If net income is less than need standard:			
Payment Standard	$282	$-0-	$-0-
Net Income	205	-0-	-0-
AFDC Payment	$ 77	$-0-	$-0-

As the first step in qualifying for AFDC, a family's total gross income is measured against the gross maximum income allowable. If the family gross income is greater than the standard (as is the case with the family of three in table 11) then the family does not qualify for AFDC. If the gross income is less than the maximum, federal regulations allow a deduction of $75 from the earned income level plus actual child care costs up to $160 per child for day care. The net income (gross income minus deductibles) is then compared to the need standard. If the net income is greater than the need standard (as is the case with the family of four in table 11) then the family does not qualify for AFDC. If the net income is less than the need standard, the applicant's income is compared to the payment standard; and if all other eligibility criteria have been met, the applicant qualifies to receive the difference between the payment standard and the applicant's net income.

Once a family has qualified to receive an AFDC payment, all members of the family unit also qualify to receive medicaid benefits. Any adjustment the state may choose to make in the need standard or the gross allowable income will effect the number of individuals who would qualify for medicaid and AFDC. Changes in the payment standard would affect the size of the AFDC payment received. Adjustment of the payment standard is discussed under Issue 3. Although federal regulations allow states considerable flexibility in determining their need standard, any adjustment that was made would require a comprehensive survey with documentation justifying any changes that were made. On the other hand, adjustment of the gross allowable income could be made administratively by Department of Social and Rehabilitation Services.

Instead of 185 percent of the need standard, Department of Social and Rehabilitation Services could reduce the gross allowable income to a lower percent. The effect of reducing the gross allowable income would be to exclude from AFDC those individuals whose income before deductions was significantly above the need standard. Because almost 80 percent of the AFDC caseload individuals have no income and because those with income typically receive a small AFDC payment, reduction of the gross income level would not have a large impact on the AFDC budget. However, because all AFDC clients are also eligible for medicaid and the average medicaid cost per AFDC family is approximately $3,500, the effect of reducing the gross income level would have a significant impact on the medicaid budget.

Based on data from a statistical sample of the fiscal 1985 caseload, the gross income standard would have to be reduced to 125 percent of the need standard before there would be any significant impact on the overall AFDC caseload. Reducing the gross income standard to 125 percent of the need standard would eliminate 1.9 percent of the caseload or approximately 176 cases per month. Assuming an average payment level of $158 per month, such a reduction would result in a savings of approximately $333,696 in AFDC costs during fiscal 1987 of which $113,456 is general fund. Based on an average AFDC medicaid cost of $3,582 per family, the reduction

in caseload would result in a medicaid savings of $630,430 for fiscal 1987 of which $211,996 is general fund.

Option A: The legislature could require Department of Social and Rehabilitation Services to reduce the gross income standard to 125 percent of the need standard. General fund savings for fiscal 1987 would equal $325,452.

SUPPLEMENTAL ISSUE 4: REVISED FEDERAL MATCH

Because over $146.2 million or 60 percent of the total Department of Social and Rehabilitation Services budget for fiscal 1987 will be spent on just two programs, medicaid and Aid to Families with Dependent Children, any change in the federal funding match ratio for these programs will have a significant effect on the general fund. The federal match ratio for each state is based on the degree to which the state's per capita income is above or below the national average per capita income. Prior to federal fiscal year 1986, the federal match ratio was calculated every two years. Beginning in federal fiscal year 1987, the federal match ratio will be calculated annually. The new match ratio for Montana for federal fiscal year 1987 increases from 66.38 percent to 67.44 percent. Adjusted to the state fiscal year, the federal match for state fiscal year 1987 will equal 67.175 percent or an increase of .795 percent.

For the medicaid and daycare programs, there is a dollar for dollar reduction in general fund as federal funds increase. For AFDC, the reduction in general fund is slightly less because these programs also include county funds. Of the total funding for the Foster Care Program, 22 percent of the funds are federal Title IV-E, 5 percent are Child Welfare Service funds, and 1 percent are federal Refugee funds. The balance of the funding is state and county funds. Only the federal Title IV-E funds are affected by the change in the federal match ratio; other federal funds remain at their current level. The following table shows the funding for the medicaid, daycare,

AFDC, and foster care programs and the general fund savings that would be realized under the new federal match ratio.

Table 12
General Fund Savings for Fiscal 1987 as a Result of Increased Federal Match

Program	66.38 Percent	67.175 Percent	Difference		
			Federal	County	State
Medicaid - Federal	$ 78,440,969	$ 79,380,417	$ 939,448		
Medicaid - State	39,728,614	38,789,166			$ (939,448)
Total	$118,169,583	$118,169,583			
AFDC - Federal	$ 25,237,819	$25,540,080	$ 302,261		
AFDC - County	792,509	773,769		$(18,740)	
AFDC - State	11,989,888	11,706,367			$ (283,521)
Total	$ 38,020,216	$38,020,216			
Day Care - Federal	$ 324,769	$ 328,659	$ 3,890		
Day Care - State	164,489	160,599			$ (3,890)
Total	$ 489,258	$ 489,258			
Foster Care - Federal	$ 1,720,550	$ 1,736,641	$ 16,091		
Foster Care - County	856,625	854,064		$ (2,561)	
Foster Care - State	3,534,458	3,520,928			$ (13,530)
Total	$ 6,111,633	$ 6,111,633	$1,261,689	$(21,301)	$(1,240,389)

The general fund savings shown in table 12 are based on the current projection by Department of Social and Rehabilitation Services of an AFDC caseload of 9,408 for fiscal 1987. This caseload is 1,325 above the AFDC caseload of 8,083 that was used in the legislative appropriation to establish funding levels for medicaid and AFDC. If the original AFDC caseload of 8,083 is used in calculating the new federal funding match, general fund savings would equal $1,159,904, county fund savings would equal $18,475, and federal funds would increase $1,178,379.

Option A: Adopt the Department of Social and Rehabilitation Services projected AFDC caseload of 9,408 and require the department to revert $1,240,389 general fund equaling the adjustment in the new federal funding match.

Option B: Retain the original projected AFDC caseload of 8,083 and require the department to revert $1,159,904 of general funds equaling the adjustment in the new federal funding match.

ISSUE 1: MILL LEVY REVERSION

In partial support of state assumption of the county welfare program, each county whose welfare program has been assumed by the state must levy 12 mills and the proceeds of the mill levy must be deposited with the state. The 12 mill revenue is included as part of SRS's funding, and because there are no restrictions on how the funds can be spent, they are treated similar to general fund. Because the program only began in fiscal 1984 and because there are other minor tax proceeds that accrue to the county poor fund, estimating the actual mill levy revenue that is received by the department has not been accurate. The following table shows the budgeted mill levy revenue and actual revenue received for fiscal 1984 through April of fiscal 1986.

Table 13
Actual Versus Estimated Mill Revenue for Fiscal 1984
Through April of Fiscal 1986

	Fiscal 1984	Fiscal 1985	Fiscal 1986
Budgeted	$ 5,418,253	$6,214,980	$6,527,941
Actual	4,271,114	6,779,423	7,343,302
Difference	$(1,147,139)	$ 564,443	$ 815,361

Language in House Bill 500 requires that if county mill revenues received by Department of Social and Rehabilitation Services exceed the amount appropriated, then

any excess funds must be reverted to the general fund. Based upon the preliminary estimates shown in table 13, SRS should revert approximately $800,000 of excess mill revenue during fiscal 1986. If one assumes the mill revenue will continue to exceed the budgeted amount during fiscal 1987, then the Department of Social and Rehabilitation Services should receive an additional $800,000 of mill revenue in fiscal 1987. Based on these estimates, the legislature could increase the department's fiscal 1987 mill levy appropriation by $800,000 and reduce the fiscal 1987 general fund appropriation by a corresponding amount.

Option A: Increase Department of Social and Rehabilitation Services 12 mill levy appropriation by $800,000 for fiscal 1987 and reduce the general fund appropriation by $800,000.

ISSUE 2: PERSONNEL REDUCTION

Based on May, 1986 personnel reports, in addition to the required 4 percent vacancy savings, Department of Social and Rehabilitation Services will underspend their personnel budget by approximately $540,000. Although a percentage of this amount may be attributable to delays in beginning new programs authorized for fiscal 1986 and a higher than normal turnover rate among staff, 13 positions were identified as not having been filled at all during fiscal 1986. Of the 13 positions identified, 9 positions have been vacant for over 18 months. Elimination of these positions would not effect any ongoing departmental programs and Department of Social and Rehabilitation Services does not need to maintain the positions in a vacant status to generate the required 4 percent vacancy savings. The following table shows the position, the length in months that the position has been vacant, the FTE level, and the general fund cost of each position at step 2 of the fiscal 1987 pay plan. The costs shown include salary and benefits.

Table 14
Vacant Positions and Fiscal 1987 Costs

Position Description	Months Vacant	FTE	General Fund	Total Fund
1. Admin. Officer III	18	1.00	$14,011	$ 28,022
2. Admin. Officer III	11	1.00	13,321	28,022
3. Admin. Officer III	18	1.00	13,321	28,022
4. Program Analyst III	24+	1.00	15,132	28,022
5. Program Officer II	11	.83	4,628	23,259
6. Rehab. Counselor III	24+	.70	4,665	16,662
7. Rehab. Teacher	17	1.00	4,808	23,802
8. Eligibility Tech. I	24+	.45	2,432	8,685
9. Human Services Aid	20	2.00	6,330	31,814
10. Social Worker II	11	.50	6,252	12,504
11. Care Specialist	11	.50	5,951	11,901
Total			$90,851	$240,715

Option A: Eliminate all positions that have been vacant since the beginning of fiscal 1986 for a general fund savings of $90,851.

Option B: Eliminate all positions that have been vacant 18 months or longer for a general fund savings of $55,891.

ISSUE 3: EMERGENCY GENERAL ASSISTANCE

The 1985 legislature approved general fund of $100,000 per year of the 1987 biennium for Emergency General Assistance. These funds were to provide a maximum of three days emergency relief to individuals who might be adversely affected by the changes in eligibility for the State General Assistance Program proposed under House Bill 843. Because the recent Supreme Court ruling has maintained the eligibility requirements for general assistance that were in effect prior to passage of House Bill 843, these funds are no longer needed by the department.

Option A: The legislature may require that the department revert the $100,000 of general fund appropriated for fiscal 1987.

ISSUE 4: ELIGIBILITY TECHNICIANS

The Eligibility Determination Bureau of Department of Social and Rehabilitation Services has 175 eligibility technicians whose primary function is determination of client eligibility for food stamps, AFDC, medicaid, and general assistance. Cost of the total Eligibility Determination program is approximately 45 percent federal, 26 percent county, and 28 percent general fund. The county funds are reimbursement for the costs of the eligibility program in the 44 counties where the state has not assumed the county welfare program. Cost of the eligibility program in the state assumed counties is 56 percent general fund and 44 percent federal funds.

For the 1987 biennium, the legislature approved 57 additional eligibility technician positions. Of these 57 positions, 23 were previously contracted for through the Assistance Payments Program and did not require an additional appropriation; 22 positions were authorized for counties where the state had not assumed the welfare program and where there would be no general fund impact; 12 positions were located in state assumed counties and required a general fund appropriation. To lessen the general fund impact, the new positions in the state assumed counties were to be phased in during the 1987 biennium at the rate of one additional position every two months beginning July 1, 1985. Because the positions are phased in, the actual number of FTE for the full year is less than the number of positions.

In September, 1985 Department of Social and Rehabilitation Services submitted a budget amendment and received approval for five additional eligibility technicians in the assumed counties. Cost of the additional positions would be paid with increased federal funds that would become available by delaying hiring of any positions until October, 1985 and by an increase in the percent of funding from 44 percent to 72.5 percent. The increased federal participation was made possible by slightly modifying the job descriptions of the eligibility technicians to meet a new federal program for fraud investigation. Thus, through the enhanced federal funding Department of Social and Rehabilitation Services increased the eligibility technician positions to 11

during fiscal 1986 which will become 11 full-time positions at the beginning of fiscal 1987. The following table shows the additional positions, FTE, and costs for the state assumed counties resulting from implementation of the budget amendment.

Table 15
Additional Eligibility Technician Positions For
State Assumed Counties

Fiscal 1986				Fiscal 1987			
No. of Positions	FTE	General Fund	Total Fund	No. of Positions	FTE	General Fund	Total Fund
Appropriated				Appropriated			
6	3.5	$35,430	$ 63,267	12	9.5	$ 96,202	$171,789
With Budget Amendment				With Budget Amendment			
11	6.0	$34,857	$126,756	17	14.5	$ 84,238	$306,327
Difference				Difference			
5	2.5	$ (573)	$ 63,489	5	5.0	$(11,964)	$134,538

The figures shown in table 15 for fiscal 1987 with the budget amendment assume that Department of Social and Rehabilitation Services would submit and receive approval for a budget amendment that continued the additional positions from fiscal 1986. As may be seen from table 15, continuation of the budget amendment would save $11,964 of general fund during fiscal 1987.

For fiscal 1987, the legislature could approve the continuation of the original six positions authorized for fiscal 1986 plus the additional five budget amended positions but eliminate the six new positions authorized by the legislature for fiscal 1987. The following table compares the appropriated level for additional FTE and cost with the FTE and costs if the budget amendment were continued, but no new positions were added.

Table 16
Comparison of Appropriated FTE and Costs for Fiscal 1987
With FTE and Cost if No New Positions are Added

	Number of Positions	FTE	General Fund	Total Fund
Appropriated	12	9.5	$ 96,202	$171,789
Budget Amendment	11	11.0	63,899	232,386
Difference	(1)	2.5	$(32,303)	$ 60,597

As may be seen from the above table, if no new positions were added during fiscal 1987 the department would still have 2.5 more FTE than originally authorized but there would also be a general fund savings of $32,303.

Option A: Approve the continuation of the fiscal 1986 budget amendment adding five new positions for fiscal 1987 for a general fund savings of $11,964.

Option B: Approve the continuation of the fiscal 1986 budget amendment adding five new positions for fiscal 1987 but eliminate the other six new positions that were originally authorized for a general fund savings of $32,303.

ISSUE 5: LEGAL SERVICES

For fiscal 1987, Department of Social and Rehabilitation Services is budgeted for two legal services contracts. One contract for $100,000 is administered by the Economic Services Program and is to help a minimum of 180 general assistance recipients file disability claims with the Social Security Administration which would then move them off general assistance and onto social security disability benefits and medicaid. As of February, 1986 eight individuals have been assisted in appealing their disability hearings and have been removed from the general assistance caseload for a savings of $4,284.

The second contract for $50,000 is in the Social Services Program and is to provide a variety of legal services for the elderly including assistance with custody issues, divorce, welfare claims, and spouse abuse.

Both contracts are with Montana Legal Services which is a member of the National Legal Services Corporation. To the extent funds are available, as a member of the National Legal Services Corporation, Montana Legal Services must provide legal assistance to indigent persons irrespective of any contracts they may have with the state. Neither contract is required by any federal law and according to Department of Social and Rehabilitation Services, loss of the contracts would not jeopardize any federal grants.

Option A: Eliminate the $100,000 legal services contract in the Economic Services program.

Option B: Eliminate the $50,000 legal services contract in the social services program.

Option C: Eliminate both legal service contracts for a general fund savings of $150,000.

ISSUE 6: ADDITIONAL SOCIAL WORKER POSITIONS

During the 1985 legislative session, 24 additional social worker positions were approved for child protective services. To reduce the 1987 biennium cost, the positions were scheduled to be phased in at the rate of six new positions every six months of the biennium. The following table shows the cost and phase-in schedule for these positions.

Table 16
Costs and Phase in Schedule for Additional Social Worker Positions

FTE	July 1985	Jan. 1986	July 1986	Jan. 1987	Biennium Total
SW II	3	6	9	12	12
SW III	3	6	9	12	12
Total	6	12	18	24	24

Costs	Fiscal 1986	Fiscal 1987	1987 Biennium
Personal Service	$204,207	$492,827	$697,034
Operating Expense	41,220	96,180	137,400
Equipment	4,000	4,000	8,000
Total	$249,427	$593,007	$842,434
Funding			
General Fund	$218,248	$518,881	$737,129
County Fund	31,179	74,126	105,305
Total	$249,427	$593,007	$842,434

The county funds shown in table 16 are the county share of personal service costs in counties where the local welfare programs have not been assumed by the state.

Department of Social and Rehabilitation Services testified during the legislative hearings that the additional social worker positions were to be used to reduce the caseloads of social workers who were providing child protective services. Protective services include investigation, referral, and intervention in cases where there is suspected physical, emotional, or sexual abuse of children, or in instances where the child suffers neglect. According to Department of Social and Rehabilitation Services, during fiscal 1984 there were 7,092 children referred for investigation of possible abuse or neglect. Of this number, 3,600 cases were confirmed abuse or neglect requiring additional services. Testimony presented by Department of Social and Rehabilitation Services in support of the additional positions did not indicate any

abused or neglected children were unserved; rather, justification for the additional positions was primarily based on the need to provide more intensive services and reduce the burnout rate experienced by existing social worker positions.

Option A: Eliminate 12 Social Worker Positions. The legislature could eliminate the 12 additional positions authorized for fiscal 1987. Because the 12 additional positions authorized for fiscal 1986 are continued the department would provide increased services in fiscal 1987 and reduce the pressure on existing social worker positions in fiscal 1987. The following savings would be generated by eliminating the 12 additional social worker positions for fiscal 1987.

General Fund	$222,377
County fund	31,768
TOTAL	$254,145

Option B: Eliminate six social worker positions. The legislature could eliminate six of the 12 authorized additional positions for fiscal 1987 and phase in the remaining six positions at the rate of three each six months during fiscal 1987. The savings that would be generated by phasing in only six new positions during fiscal 1987 equal:

General fund	$111,187
County fund	15,884
TOTAL	$127,071

ISSUE 7: INCREASE LOCAL SUPPORT FOR BIG BROTHERS AND SISTERS

The Big Brothers and Sisters Program is a service provided to youth from single parent families. According to information provided by the State Federation of Big Brothers and Sisters in Montana, during fiscal 1984 1,344 children received services from this program. Adult volunteers are selected and matched with children from single parent families to provide friendship, guidance and appropriate role models. Department of Social and Rehabilitation Services funding for the program during fiscal

1987 is $226,000 of which 25 percent are local funds ($56,500) and 75 percent general fund ($169,500). In fiscal 1984, Big Brothers and Sisters reported that the state general fund contribution was 29 percent of their statewide budget. These funds are used to pay operational and administrative costs such as volunteer training, rent, and advertising. According to information presented to the legislature by the State Federation of Big Brothers and Sisters, of the eleven Big Brother and Sister Programs that receive state funds, only three programs would be forced to close if state funds were discontinued entirely.

The legislature could require that Department of Social and Rehabilitation Services reduce the state match level to 50 percent general fund. Whether or not services would be reduced under the adjusted match ratio would depend upon the ability of the local programs to increase their share of the costs.

Option A: Reduce the state match to 50 percent in fiscal 1987 for the Big Brothers and Sisters Program for a general fund savings of $56,500.

ISSUE 8: FOSTER CARE CLOTHING ALLOWANCE

During the legislative hearings for foster care, testimony was presented that because the reimbursement rate paid by Department of Social and Rehabilitation Services was so low, many foster parents had to pay for clothing and special services for foster children with their own money. To rectify this situation, the 1985 legislature established a basic rate for foster care that was intended to cover all the normal expenses of maintaining a foster child and appropriated $254,855 in additional funds for fiscal 1987 for clothing and support services to the 1,217 foster care children in group homes and in foster families. The additional services to be provided included child therapy, food supplements, respite care, special needs such as orthopedic shoes or special school needs, and an increase in the clothing allowance. The following table shows the allocation of the additional funds and the number of children served.

Table 18
Additional Support Service for Foster Care
Fiscal 1987

Support Service	Children Served	Cost per Child	Fiscal 1987 Cost
Clothing	1,253	$ 100.00	$125,265
Child Therapy	82	921.36	75,552
Supplemental Services	484	26.58	12,867
Home Damage			7,750
Respite Care	130	116.55	15,151
Diet Support	10	1,827.00	18,270
Total			$254,855
Funding			
General Fund			$ 86,651
County Fund			30,583
Federal Fund			137,621
Total			$254,855

According to Department of Social and Rehabilitation Services, a $50 yearly clothing allowance had been built into the daily rate for foster care during fiscal 1984 but no funds were allocated to other supplemental services such as child therapy, home damage or respite care. However, because of budget constraints during fiscal 1984, only 400 foster children actually received the $50 clothing allowance. Clothing for foster children who did not receive the clothing allowance during the 1985 biennium was either paid for by their foster parents or came from donations. The additional funds appropriated for the 1987 biennium were intended by the legislature to reimburse foster parents for any extra costs that were not covered through the basic foster care rate. The additional funds were to be used on an as needed basis and would allow each child up to $100 per year for clothing. If the additional appropriation for clothing were reduced from $100 per child to $50 per child, the general fund savings would be $21,295 during fiscal 1987. By restricting the

reduction to just the clothing allowance, no therapeutic services would be jeopardized.

Because the additional funds are used on an as needed basis and have not been built into the basic foster care rate, it is possible to account for fiscal 1986 expenditures of these funds. The following table compares the fiscal 1986 appropriation, actual expenditures through March 31, 1986, the projected total expenditures for fiscal 1986, and the balance of funds.

Table 19
Appropriated and Expended Funds for Additional Foster Care Services
During Fiscal 1986

Service	Fiscal 1986 Appropriated	Actual Expenditures	Projected Expenditures	Balance
Clothing	$119,300	$30,431	$40,575	$ 78,725
Supplemental Services	12,255	16,249	21,655	(9,400)
Child Therapy	71,955	9,817	13,089	58,866
Respite Care	14,430	1,518	2,024	12,406
Diet Support	17,400	669	892	16,508
Home Damage	7,750	-0-	-0-	7,750
Total	$243,090	$58,684	$78,235	$169,855

As may be seen from table 19, during fiscal 1986 only $78,235 or 32.2 percent of the total appropriation is projected to be spent. Assuming a similar expenditure pattern for fiscal 1987, $82,021 of the $254,855 appropriation will be spent. This leaves a balance of $172,834 of which $58,764 is general fund.

Option A: Reduce the appropriation for support services for foster care by an amount equal to the reduction of the clothing allowance from $100 to $50. Such a reduction would not jeopardize any therapeutic services. The general fund savings would be $21,295.

Option B: Reduce the appropriation for additional services by an amount equal to the difference between the projected expenditures and the appropriation. The general fund savings would be $58,764.

ISSUE 9: RESIDENTIAL ALCOHOL AND DRUG TREATMENT FOR YOUTH

The Department of Social and Rehabilitation Services received funding in the 1985 biennium for a new program to provide residential alcohol and drug treatment for indigent youth in need of care, youths in need of supervision, and delinquent youth. To be eligible, the youth must meet the AFDC income standard, be an adjudicated delinquent, be reviewed by a certified alcohol counselor as in need of treatment, and be placed in an alcohol program approved by the Department of Institutions.

General fund of $225,000 per year was appropriated to support the program. To offset the cost of the new program, the legislature increased the beer tax by $.30 per barrel. Through April, the increased beer tax had netted $177,813. If the pattern of beer consumption is maintained through the fiscal year, the increased tax will net a total of $213,376 for fiscal 1986.

The department reimburses approved facilities $110 per day up to 40 days, for a maximum payment of $4,400 per youth. Forty-three youth had been placed by the end of April 1986 at a rate of approximately one youth per week. According to the department, there is currently no waiting list. Based upon billings received for the 30 youth who had completed the program through that time period, the department has reimbursed facilities at an average rate of $3,523 for 32.02 days of care per youth. If rates of placement and reimbursement continue, the department will expend $183,196 on 52 youth placed in fiscal 1986, which is $41,804 less than the appropriated level of $225,000. The following table shows the number of youth who could be served at various levels of appropriation given current payment patterns.

Table 20
Residential Alcohol and Drug Treatment
Appropriation - Youth Served

Percent of Appropriation	Funding	Youth Served
100% Funded	$225,000	64
25% Reduction	168,750	48
50% Reduction	112,500	32
75% Reduction	56,250	16

If reduction were made in the Alcohol and Drug Treatment Program, any funds saved would revert to the general fund. If the program were eliminated, all taxes collected would remain in the general fund. All services to youth existing in fiscal 1985 would be maintained. A reduction in the appropriation would reduce the number of youth receiving treatment from projected fiscal 1986 levels.

Option A: Reduce funding by 25 percent, general fund savings: $56,250

Option B: Reduce funding by 50 percent, general fund savings: $112,500

Option C: Reduce funding by 75 percent, general fund savings: $168,750

Option D: Eliminate program for fiscal 1987, general fund savings: $225,000

ISSUE 10: EXPANSION OF WAIVER PROGRAM

During the 1985 biennium, the legislature authorized Department of Social and Rehabilitation Services to develop home and community based services for the elderly as a less expensive alternative to nursing home care. Services provided through this program include homemaker services, in-home nursing care, and respite care for the elderly. Eligibility criteria for the program are similar to those for AFDC and medicaid. Funding for the program is 63 percent federal and 37 percent general fund.

For the 1987 biennium, the legislature approved expansion of the community based services program by 25,600 days of care in fiscal 1986 and 39,600 days of care

in fiscal 1987 from the approximately 70,000 days of care in fiscal 1985. However, based on actual waiver expenditures through April, 1986, projected expenditures for the program are estimated to be $507,431 under budget. Assuming a similar utilization rate for the program during fiscal 1987, expenditures will be $629,550 under budget. The following table compares the 1987 biennium budget and projected expenditures for the Waiver Program.

Table 21
Comparison of Budgeted Versus Projected Expenditures for the Waiver Program
1987 Biennium

	Fiscal 1986		Fiscal 1987	
	Care/days	Cost	Care/days	Cost
Budget	96,005	$1,424,503	109,965	$1,767,325
Projection	85,408	917,072	93,827	1,137,775
Difference	10,597	$ 507,431	12,138	$ 629,550

In fiscal 1987, the expanded services would cost an additional $627,302 of which $229,882 is general fund. However, based on the above projected expenditures, the legislature could eliminate the $627,302 in funding for the expanded services for fiscal 1987 without reducing the level of services that are projected to actually be provided.

Option A: Eliminate expanded waiver services for a general fund savings of $229,882.

ISSUE 11: MONTANA YOUTH TREATMENT CENTER

SRS's fiscal 1987 medicaid appropriation includes $2,002,434 to fund the new Montana Youth Treatment Center for emotionally disturbed youth. However, before the facility can receive medicaid funding it must be certified as meeting federal medicaid standards. To date, the center has been reviewed twice by federal certification teams but due to continuing facility and programmatic deficiencies the center has not been granted medicaid certification.

Currently the center is funded 100 percent with general fund through the Department of Institutions. If medicaid certified, any medicaid reimbursement received by the facility would be deposited in the state treasury as revenue. Because they did not expect that the facility would be certified during fiscal 1987 as medicaid eligible, the Governor's Revenue Estimating Advisory Council did not include in their revenue estimate any medicaid reimbursement from the youth center. If the center is not eligible for medicaid reimbursement during fiscal 1987, then SRS's medicaid appropriation may be reduced by $2,002,434 of which $651,993 is general fund.

Option A: Reduce medicaid funding by $2,002,434 for a general fund savings of $651,993.

ISSUE 12: REDUCTION OF NON-INTENSIVE SERVICES FOR THE DEVELOPMENTALLY DISABLED

Over the past three bienniums, services for the developmentally disabled has been one of the fastest growing programs in Department of Social and Rehabilitation Services. As may be seen from the following table, total costs for these programs have increased by 49.3 percent from the 1983 biennium to the appropriation for the 1987 biennium.

Table 22
Developmental Disabilities Program Expenditures
1983 through 1987 Biennium

	1983 Biennium	1985 Biennium	1987 Biennium	% Change 1983-1987
Total Costs	$24,175,222	$30,028,938	$36,108,658	49.3

A wide variety of services for the developmentally disabled are provided by Department of Social and Rehabilitation Services through contracts with 56 local corporations. The following table shows the contracted services and the Department

of Social and Rehabilitation Services allocation of funds by service at the current level appropriation for the 1987 biennium.

Table 23
Developmental Disabilities Services Benefits
Fiscal 1986 and 1987

Service	Fiscal 1985 Base	Fiscal 1986 Appropriation	Fiscal 1987 Appropriation	% Change 1985-1987
Adult Group Home	$ 2,445,151	$ 2,707,732	$ 2,816,042	15.2
Intensive Group Home	1,072,488	1,326,203	1,371,251	27.8
Child Group Home	1,000,643	1,061,276	1,103,727	10.3
Semi-Independent	771,356	803,446	835,584	8.3
Day Service	5,868,655	5,970,196	6,209,004	5.8
Specialized Family	237,500	416,000	432,640	82.2
Family Training	1,046,436	1,150,042	1,196,044	14.3
Respite	253,184	244,733	254,522	.5
Vocational Placement	32,290	84,110	87,474	170.9
Evaluation Diagnosis	447,347	353,674	367,821	(17.8)
Adaptive Equipment	66,560	70,305	73,117	9.8
Transportation	841,886	661,749	696,218	(17.3)
Program Expansion	-0-	754,994	2,135,129	-0-
Total	$14,083,496	$15,604,460	$17,578,573	24.8

Although the subcommittee did not require that Department of Social and Rehabilitation Services expend funds exactly according to the above allocation, it was the subcommittee's intent that the priority for funding services should be the residential services - adult group homes, intensive group homes, child group homes, semi-independent living, and specialized family care. Although not necessarily true in every case, in general these services are more likely to have a direct impact on reducing inappropriate institutionalization. Additionally, some services such as transportation could be continued through a more extensive use of local volunteers.

The legislature could require the department to make a selective percentage reduction in services. Services to be reduced would be those that would have the least potential for increasing institutionalization. Table 24 shows an example of how services could be reduced with selective percentage reductions and the corresponding

savings. Program expansion has also been reduced under the assumption that at least 15 percent of these funds would be used for non-residential services. Issue 11 discusses the elimination of non-residential services from the program expansion only. Actual reductions should require an analysis by Department of Social and Rehabilitation Services to ensure that reductions made would have a minimal impact on potential client institutionalization.

Table 24
Comparison of Appropriated Level of Developmental Disabilities Services and a Selective Reduction in Services

Service	Fiscal 1987 Appropriation	Reduced Appropriation	Savings	Percent Reduction
Adult Home	$ 2,816,042	$ 2,816,042	$ -0-	0.0
Intensive Home	1,371,251	1,371,251	-0-	0.0
Child Home	1,103,727	1,103,727	-0-	0.0
Semi-Independent	835,584	835,584	-0-	0.0
Day Service	6,209,004	5,588,104	620,900	10.0
Special Family	432,640	432,640	-0-	0.0
Family Training	1,196,044	1,136,242	59,802	5.0
Respite	254,522	241,796	12,726	5.0
Vocational Placement	87,474	83,100	4,374	5.0
Evaluation/Diagnosis	367,821	349,430	18,391	5.0
Adaptive Equipment	73,117	69,461	3,656	5.0
Transportation	696,218	591,785	104,433	15.0
Program Expansion	2,135,129	1,814,860	320,269	15.0
Total	$17,578,573	$16,434,022	$1,144,551	6.5

Funding for the developmental disabilities program is primarily a combination of federal social services block grant funds and general fund. Because there is no match requirement for these federal funds, any savings that would accrue from a reduction of service would be general fund.

The following table shows the general fund savings if all non-residential services were reduced by 5, 10, and 15 percent.

Table 25
Comparison of 5, 10, and 15 Percent Reductions for all Non-Residential Services

Appropriation	5 Percent Reduction	10 Percent Reduction	15 Percent Reduction
Current Level	$17,578,573	$17,578,573	$17,578,573
Reduced	16,699,644	15,820,715	14,941,787
Savings	$ 878,929	$ 1,757,857	$ 2,636,786

Option A: Reduce all non-residential services by 5 percent for a fiscal 1987 general fund savings of $878,929.

Option B: Reduce all non-residential services by 10 percent for a fiscal 1987 general fund savings of $1,757,857.

Option C: Reduce all non-residential services by 15 percent for a fiscal 1987 general fund savings of $2,636,786.

Option D: Selective percentage reduction of services. The Legislature could request a selective or variable percentage reduction in services similar to the reduction presented in table 24. The total general fund savings would depend upon the reductions requested. If the reductions followed the pattern shown in table 24, the general fund savings would be approximately $1,144,551.

ISSUE 13: EXPANSION OF DEVELOPMENTAL DISABILITIES SERVICES

During the 1985 legislative session, considerable testimony was presented by both Department of Social and Rehabilitation Services and developmental disability provider groups regarding the number of developmentally disabled persons in the community who were currently not receiving any services. At that time, it was estimated that there were approximately 800 individuals on the Department of Social and Rehabilitation Services waiting list for developmental disability services. For the

1987 biennium, the legislature appropriated $2,890,123 for expanded developmental disability services to provide services to 285 from the waiting list. Although Department of Social and Rehabilitation Services was not able to specify the new services that would be added, services would include development of new group homes and day care programs. Funding for these new services was partially to come from funds "saved" through expanded use of the medicaid waiver for community based programs. Federal regulations allow medicaid reimbursement for community based programs for developmentally disabled individuals, who in the absence of such services, would require institutional care. The following table shows the funding for the expansion of services to reduce the waiting list under the medicaid waiver.

Table 26
1987 Biennium Funding for Reduction in Waiting List

	Fiscal 1986	Fiscal 1987
General Fund	$ (555,798)	$ 755,775
Federal Medicaid	1,310,792	1,379,354
Total Cost	$ 754,994	$2,135,129

The $555,798 reduction of general fund during fiscal 1986 occurs as a result of the switch in funding of current services from general fund to medicaid funds. For example, a group home that was 100 percent general fund during fiscal 1985 would be funded with two-thirds federal medicaid funds during fiscal 1986. The savings that accrue from this change in funding are then used to develop new programs for individuals from the waiting list. However, by fiscal 1987 when the program is fully implemented, there will be an additional general fund cost of $755,775. This increase in general fund for fiscal 1987 will become part of the base budget for the 1989 biennium.

Through February 10, 1986 Department of Social and Rehabilitation Services has committed funds for the following new programs as expanded services for the developmental disabilities waiting list.

Table 27
New Services and Funding for the Developmental Disabilities Waiting List
Through February 1986

Service	Service Slots	Fiscal 1986	Fiscal 1987
Group Homes	119	$236,414	$1,036,434
Vocational Placement	48	25,880	138,208
Day Care	76	186,959	399,125
Specialized Family	24	51,150	204,570
Family Training	39	48,518	89,143
Respite	40	8,160	17,306
Transportation	66	26,355	57,439
Evaluation & Diagnosis	15	3,600	7,561
Total	427	$587,036	$1,949,786

The legislature could require that Department of Social and Rehabilitation Services to not contract for any expanded services during fiscal 1987 except for clients in group homes or specialized family care programs that were begun during fiscal 1986. This would maintain those individuals in state funded residential settings during fiscal 1986 but would eliminate other service expenses beyond the fiscal 1985 level. Elimination of other expanded services for fiscal 1987 would result in a general fund saving of approximately $708,700 during fiscal 1987.

Option A: Eliminate all expanded services for fiscal 1987 except group home or specialized family care for a general fund savings of $708,700.

ISSUE 14: ADMINISTRATIVE REORGANIZATION OF DEVELOPMENTAL DISABILITIES

In response to the mandates of the 1975 legislature to develop community based programs for the developmentally disabled and to deinstitutionalize the population of Boulder River School and Hospital, the Developmental Disabilities Division of

Department of Social and Rehabilitation Services has developed a complex network of over 56 different local corporations with whom they contract for services. Although the number of different corporations may provide some assurance of local control and involvement with developmental disabilities programs, such a system also has a large administrative overhead cost that diverts scarce resources away from direct services. Table 10 presents the fiscal 1985 personal service costs of the program directors and their business offices by region. The table also shows the administrative costs of the regional mental health offices which are $1.2 million less than those for the developmental disabilities programs. As is true with the developmental disabilities programs, there is a very wide diversity of mental health programs operated in almost all counties of the state. However, in the case of the mental health programs, satellite programs are administered through the five regional administrative offices.

Table 28
Comparison of Administrative Personal Service Costs for
Developmental Disabilities and Community Mental Health Programs
Fiscal 1985

Dev. Disabilities Region	Directors' Salaries	Business Office	Total Costs	# Contracts
Region I	$ 198,673	$112,389	$ 311,062	9
Region II	236,889	164,653	401,542	9
Region III	176,321	80,997	257,318	12
Region IV	269,246	238,785	508,031	16
Region V	223,561	144,911	368,472	10
Total	$1,104,690	$741,735	$1,846,425	56
Mental Health Region				
Region I	$ 52,069	$ 57,407	$ 109,476	1
Region II	42,317	107,325	149,642	1
Region III	49,674	79,867	129,541	1
Region IV	50,000	93,000	143,000	1
Region V	54,309	61,737	116,046	1
Total	$248,369	$399,336	$ 647,705	5

The above figures include only the personnel costs and do not identify associated operating expenses. Positions included as directors are director and executive director. Included as business office are business managers, bookkeepers, payroll clerks, vice president of finance, comptrollers, and accountants.

In addition to the community based administrative overhead that is associated with a large number of contract agencies, the size of the developmental disabilities division staff of Department of Social and Rehabilitation Services is also a direct result of having to interact with the diversity of management policies associated with as many as 56 separate corporations. Many of the functions that are currently performed by the division, such as data collection and analysis, program evaluation, contract negotiations, and contract budgeting and monitoring could be delegated to a regional office. It is reasonable to assume that considerable administrative efficiencies and potential developmental disabilities division staff reductions could be realized if the number of contracts were reduced from 56 to 5. The following table compares the staff and total budgetary responsibility of the Developmental Disabilities of Department of Social and Rehabilitation Services and the Mental Health Division in the Department of Institutions. Although the Developmental Disabilities Division is only responsible for administration of the developmental disabilities community programs, the Mental Health Division supervises seven major institutional programs as well as the community mental health programs.

Table 29
Comparison of DD and MH Division Staff and Budgetary Responsibility
Fiscal 1984

Program	Total Staff	Staff Cost	Total Budgetary Responsibility
Dev. Disability	30.25	$785,175	$14,237,902
Mental Health	5.00	167,778	44,037,393

Essentially both the developmental disabilities system and the mental health system must provide for the same administrative functions of budgeting, quality control, crisis management, and policy development. However, because the developmental disabilities division must deal separately with 56 contract organizations, the central office staff requirements are much greater than for those of the mental health division and there is the potential for unnecessary administrative duplication. For example, budgeting and routine business office operations are necessary in both systems. However, as shown in table 10, because the mental health system is regionalized and the business office functions are consolidated in a regional mental health office, the business office costs for the mental health system are considerably less than the business office costs of the developmental disabilities system. Additionally, because the Mental Health Division only needs to process the budgets and contract negotiations for five corporations instead of the 56 corporations with which the Developmental Disabilities Division must interact, the central office mental health manpower needs are appreciably less.

The legislature could require Department of Social and Rehabilitation Services to adopt a regionalized administrative structure for the developmental disabilities community based programs. Such a reorganization would require the consolidation of all developmental disabilities programs within each region under a single administration with one administrative director and a centralized business office. Although the current mental health system might serve as a model, other alternatives could be considered and the final structure should incorporate input from both the department and provider groups. A proposal from the department should be available at the beginning of the regular 1987 legislative session. Based on the experience of the Mental Health Programs, the potential savings would be approximately $1.2 million in general funds per fiscal year.

Option A: Require that a regionalization plan be submitted to the 1987 legislature with a goal of effecting savings in program and administrative costs.

NATURAL RESOURCES & COMMERCE

NATURAL RESOURCES AND COMMERCE

Governor's Issues	General Fund % Cut	Fiscal 1987 General Fund	Fiscal 1987 Other Funds	Fiscal 1987 Total
Across the Board Cuts				
Agriculture	5.00	$ 75,016	$ 64,979	$ 139,995
Commerce	4.96	427,611	1,428,665	1,856,276
Fish, Wildlife and Parks	0.00	-0-	915,712	915,712
Livestock	5.00	33,640	176,901	210,541
DNRC	5.00	277,629	299,343	576,972
Public Service Commission	5.00	85,584	-0-	85,584
State Lands	5.00	337,695	178,587	516,282
Total Across the Board Cuts	4.90	$ 1,237,175	$ 3,064,187	$ 4,301,362
Park Division		$ 433,553	$ (433,553)	$ -0-
Water Development		725,000	(725,000)	-0-
Utility Tax		1,626,087	(1,626,087)	-0-
Total Policy Cuts		$ 2,784,640	$(2,784,640)	$ -0-
TOTAL GOVERNOR'S CUTS		$ 4,021,815	$ 279,547	$ 4,301,362
LFA Policy Options				
Department of Commerce				
1. Montana Promotion		$ 1,243,964	$ -0-	$ 1,243,964
2. Business Assistance		730,858	-0-	730,858
3. Local Government Block Grant		1,500,000	(1,500,000)	-0-
Dept. of Fish, Wildlife & Parks				
1. Park Program Funding		448,506	(448,506)	-0-
Department of Livestock				
1. Rabies Control		68,841	(68,841)	-0-
Department of Natural Resources				
1. Water Engineering Bureau		353,090	(353,090)	-0-
2. Monitoring Energy Supplies		27,143	-0-	27,143
3. Major Facility Siting Bureau		173,000	-0-	173,000
Public Service Commission				
1. Program Increases		24,982	-0-	24,982
Department of State Lands				
1. Forest Fire Suppression Costs		237,000	(237,000)	-0-
2. Slash Disposal on Private Lands		20,600	(20,600)	-0-
3. Private Forest Land Assistance		187,402	-0-	187,402
TOTAL LFA OPTIONS		$ 5,015,386	$(2,628,037)	$ 2,387,349
COMBINED GOVERNOR'S CUTS & LFA OPTIONS		$9,037,201	$(2,348,490)	$ 6,688,711
LESS: Duplicated Cuts		801,596	(801,596)	-0-
TOTAL UNDUPLICATED REDUCTION		$ 8,235,605	$(1,546,894)	$ 6,688,711

PUBLIC SERVICE COMMISSION

Budget Items	Fiscal 1987 House Bill 500	Fiscal 1987 Governor's Budget	Difference
F.T.E.	46.00	46.00	0.00
Personal Service	$1,301,844	$1,301,844	$ -0-
Operating Expense	445,384	359,800	85,584
Equipment	30,362	30,362	-0-
Total Expenditures	$1,777,590	$1,692,006	$ 85,584
General Fund	$1,711,671	$ -0-	$ 1,711,671
State Special	-0-	1,626,087	(1,626,087)
Federal Revenue	50,919	50,919	-0-
Proprietary	15,000	15,000	-0-
Total Funding	$1,777,590	$1,692,006	$ 85,584

ISSUES IN GOVERNOR'S BUDGET - Fiscal 1987	General Fund	Other Funds
Gov. 1. 5 Percent Cut	$ (85,584)	$ -0-
Gov. 2. Utility Tax to Replace General Fund	(1,626,087)	1,626,087

ISSUE GOV. 1: 5 PERCENT CUT

The proposed reduction would eliminate all Commission travel and require that all public hearings be held in Helena. The cuts will also delay the computer program development for a case management system. The case management system is designed to computerize the PSC records and provide additional computing and record management capabilities.

ISSUE GOV. 2: REGULATED UTILITY TAX

The executive proposes that $1,626,087 of general fund be replaced by $1,626,087 from a utility tax.

The executive proposed utility tax would parallel of the utility tax currently used to fund the Legislative Consumer Counsel. The utility tax for the consumer

counsel is calculated as follows: (1) determine the gross operating revenue generated by all regulated activities within the state for the previous fiscal year; (2) divide the consumer counsel appropriation by the gross operating revenue to establish a ratio which can be multiplied with the individual company's gross revenue to determine its tax liability. The above process has one caveat, that no municipally owned utility can be charged more than .06 percent of its gross operating revenue.

The draft legislation for the Public Service Commission utility tax states that for fiscal 1987 the Department of Revenue shall use the first three quarters of fiscal 1986 to determine the gross operating revenues for regulated companies. The base appropriation will be the 1987 Public Service Commission appropriation which is $1,626,087. The regulated companies will be sent billings by August 15, 1986 and there will be three quarterly billings in the remaining three quarters of the fiscal year. Each bill will be for one-third the total amount. For fiscal 1988 and thereafter, the companies will be making four quarterly payments.

The Department of Revenue recently sent out the quarterly bills to regulated companies for the fiscal 1987 consumer counsel utilities tax. Based upon the data used to determine that tax, the LFA is estimating that non-municipal regulated companies will be charged a tax of 0.21 percent of gross operating revenues and municipal companies at .06 percent. Over the past seven fiscal years the consumers counsel utility tax has been between 0.03 percent and 0.1 percent.

PUBLIC SERVICE COMMISSION

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	46.84	56.5	46	46	(10.5)
Personal Service	$1,162,209	$1,279,019	$1,322,057	$1,365,838	6.8
Operating Expense	371,085	417,848	403,120	424,984	1.7
Equipment	65,081	110,845	41,282	50,762	(54.2)
Total Expenditures	$1,598,375	$1,807,712	$1,766,459	$1,841,584	1.9
Fund Source					
General Fund	$1,498,921	$1,542,893	$1,689,831	$1,775,665	15.1
Federal Revenue	99,454	264,819	61,628	50,919	(80.8)
Other Approp. Funds	-0-	-0-	15,000	15,000	100.0
Total Funds	$1,598,375	$1,807,712	$1,766,459	$1,841,584	1.9

ISSUES - Fiscal 1987	General Fund	Other Funds
Added General Fund Revenues		
1. Raising the Annual Motor Carrier Vehicle Registration Fee		
Option A: Set fee at $10	$(1,075,975)	-0-
Option B: Request PSC to raise fee to $10	$(1,075,975)	-0-
Option C: Set fee at $7.50	$(537,998)	-0-
Program Reduction		
2. Eliminate the Increases for Fiscal 1987		
Option A: Pipeline consultants	$(11,232)	-0-
Option B: Staff training	$(5,000)	-0-
Option C: Expert witnesses	$(8,750)	-0-

The Public Service Commission is responsible for regulation of public utilities, motor carriers, and railroads and for administration of the Natural Gas Pipeline Program. The Motor Carrier Safety Program, which had been administered by the commission, was transferred in the 1987 biennium to the Department of Justice.

The major change in this program was the reduction of 10.5 FTE. The funding for three positions was transferred to operating expenses for computer software acquisition, and 7.5 FTE associated with the Motor Carrier Safety Program were

transferred to the Department of Justice. The reduction in equipment reflects the purchase of computer hardware in fiscal 1985. The decrease in federal funds of 80.8 percent is due to the transfer of the Motor Carrier Safety Program.

ISSUE 1: RAISING THE ANNUAL MOTOR CARRIER VEHICLE REGISTRATION FEE

State statutes require that every motor carrier pay to the Public Service Commission a fee for all motor vehicles operated by the carrier over the public highways of the state. When the fee is paid the PSC issues a stamp to be put in the vehicle's log and which indicates that the fee has been paid. This fee, which is currently $5.00 per motor vehicle, generated $1,075,995 in stamp year 1985 (a stamp year runs from October to September.) These funds are deposited into the general fund. If the fee were raised to $10.00 per motor vehicle the general fund would receive an additional $1,075,995 in revenues.

The maximum fee that the state may charge interstate motor carriers is set by the federal government. Up until 1984 the maximum fee allowed by federal rule was $5.00. In 1984 the rule was amended to allow the states to charge up to $10.00. Currently 10 other states have raised their annual fee to $10.00.

Although no specific data is available which gives accurate figures, out of state motor carrier owners pay a majority of the fees. On the day the Office of the Legislative Fiscal Analyst checked with the Public Service Commission on stamps processed, 76 stamps were purchased by out-of-state owners and 3 were purchased by in-state owners. Although this is far from a scientific sampling, the Public Service Commission indicated that this appeared to be about the daily ratio of out-of-state to in-state applications processed. Therefore, it may be safe to say that 80 to 90 percent of the fees are paid by out-of-state firms.

State statute Section 69-12-421, MCA, grants authority to the PSC to charge a fee for the use of Montana public highways by motor carriers. Up until 1983 this section detailed that the fee was $5.00. In 1983 the legislature amended the statute

and gave the PSC the authority to set the fee. To date the PSC has not changed the fee. To raise the fee to $10.00 the legislature could reinstate language in Section 69-12-421, MCA, which sets the fee at $10.00, or pass a resolution requesting that the PSC raise the fee.

Option A: Amend Section 69-12-421, MCA, and set the fee at $10.00. This would raise an additional $1,075,995 for the general fund.

Option B: Request through a resolution that the PSC raise the fee to $10.00. This would raise an additional $1,075,995 for the general fund.

Option C: Amend Section 69-12-421, MCA, and set the fee at $7.50. This would raise an additional $537,998 for the general fund.

ISSUE 2: ELIMINATE THE INCREASES IN THE FISCAL 1987 BUDGET

Three new general fund appropriations were made in the 1987 biennium to the Public Service Commission. First, the legislature added $30,000 for the biennium (50 percent general funds and 50 percent federal funds) to have a consultant assist in waiver review on the Montana Power Company gas pipeline. The pipeline is a natural gas pipeline being constructed between Warm Springs and Cut Bank. Currently, one-half of the pipeline has been constructed between Warm Springs and Sun River and the second half is scheduled to begin construction in the near future. The consultant was to be an expert in fracture mechanics and was to provide guidance to the Public Service Commission in its decisions relating to the pipeline. As of May 14, 1986, $7,536 has been spent or committed, leaving a balance of $22,464 unobligated, of which $11,232 is general fund.

The second program increase was $5,000 per year for training. The training appropriation was requested to better equip the Public Service Commission staff for the complex nature of utility regulations.

The third program increase was $20,000 for the biennium to hire expert witnesses to assist the commission in rate issues where current staff lacked the required knowledge. As of May 14, 1986, $8,750 of the total remains unobligated.

Option A: Eliminate the consultant in fiscal 1987 for a general fund savings of $11,232.

Option B: Eliminate the staff training in fiscal 1987 for a general fund savings of $5,000.

Option C: Eliminate the expert witness funding in fiscal 1987 for a general fund savings of $8,750.

DEPARTMENT OF FISH, WILDLIFE AND PARKS

Budget Items	House Bill 500	Governor's Budget	Difference
	Fiscal 1987		
F.T.E.	494.07	475.44	18.63
Personnel Services	$12,620,012	$12,172,112	$447,900
Operating Expenses	8,097,589	7,690,345	407,244
Equipment	1,286,064	1,226,746	59,318
Total Operating Costs	$22,003,665	$21,089,203	$914,462
Non-Operating Costs	3,612,824	3,611,574	1,250
Total Expenditures	$25,616,489	$24,700,777	$915,712
General Fund	$ 433,553	-0-	$433,553
State Special	16,120,939	15,748,445	372,494
Federal Revenue	6,868,693	6,868,693	
Proprietary	2,193,304	2,083,639	109,665
Total Funding	$25,616,489	$24,700,777	$915,712

ISSUES IN GOVERNOR'S BUDGET	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
Gov. 1. 5 Percent Cut		
A. Centralized Services	-0-	$(176,285)
B. Field Services	-0-	$(50,196)
C. Fisheries	-0-	$(137,473)
D. Law Enforcement	-0-	$(187,359)
E. Wildlife	-0-	$(130,469)
F. Parks and Recreation	-0-	$(146,193)
G. Conservation Education	-0-	$(52,752)
H. Administration Division	-0-	$(34,985)
Gov. 2. Parks Funding Switch-Trust Interest	$(433,553)	$433,533
Gov. 3. Parks Funding Switch-Coal Severance Tax Revenue	N/A	N/A

ISSUE GOV. 1: 5 PERCENT CUT

A. Centralized Services

1. Reduce 1.45 FTE in Accounting and Finance Bureau.

2. Reduce .80 FTE in the License Bureau.

3. Reduce proprietary funds. The proprietary funds are a revolving account the department uses to maintain and upgrade the vehicle fleet,

maintain the warehouse inventory, and do the department's printing. The proposed cut would eliminate the purchase of three vehicles and reduce the inventory in the warehouse.

B. Field Services - General program reductions.

C. Fisheries

1. Partial closure of Flathead Salmon Hatchery - $35,000.
2. Combine water resource supervisor position with in-stream biologist for six months - $20,001.
3. Combine Great Falls Hatchery manager position with hatchery bureau chief position for six months - $16,472.
4. Reduce stocking of hatchery fish - $15,000.
5. Reduce USGS stream gauging contract - $6,000.
6. Reduce fish management operations - $33,000.
7. Reduce lake and stream improvement project - $12,000.

D. Law Enforcement

1. Reduce patrols at state parks by 44 percent - $13,614.
2. Reduce the appropriation authority for transferring fines into the wardens' retirement system - $14,500.
3. Eliminate two warden trainees and two warden positions - $159,245.

E. Wildlife

1. Reduce funds for the waterfowl stamp program - $4,654.
2. Terminate the University of Montana contract for legal and technical advice - $12,500.
3. Reduce one bighorn sheep transplant - $3,692.
4. Terminate a clerical position at Freezout Wildlife Management Area - $21,371.
5. Terminate a fish transplant into the cabinet wilderness area - $7,535.
6. Eliminate the wildlife area manager in region two - $27,776.

7. Eliminate a full-time coal coordinator position - $31,459.

8. Eliminate a wildlife lab position - $19,232.

9. Reduce non-game checkoff expenditures - $2,250. The revenue for the non-game wildlife fund comes from taxpayers' check-off on the personal income tax. The appropriation for fiscal 1987 is based on an estimate of the dollar amount the public will contribute. If revenues are 5 percent less than the appropriation, then the proposed cut would not affect the program, as the lack of revenue would have resulted in such restriction without reducing the appropriation. If, however, the revenues are within 5 percent or greater than the appropriation, the program would not have enough appropriation authority to expend all the funds donated by taxpayers.

F. Parks and Recreation

1. Close eight state monuments.

2. Close eleven state recreation areas and do not open two new ones.

3. Close two fishing access sites.

4. Reduce fifteen snowmobile grooming and maintenance contracts - $146,193.

G. Conservation Education

1. Eliminate one position in information services - $36,400.

2. Reduce the hunter education program - $16,352.

H. Administration

Eliminate one position from the planning staff - $34,988.

ISSUE GOV. 2: REPLACE THE GENERAL FUND IN PARKS AND RECREATION WITH FISH, WILDLIFE, AND PARKS/HISTORICAL SOCIETY TRUST FUND INTEREST

The executive office has proposed replacing the $433,553 of general fund appropriated for operating the Parks and Recreation Program with trust fund interest. In proposing the replacement of general fund with trust interest, the executive has

stated that scheduled fiscal 1987 park acquisitions and improvements would be postponed, except for the Fort Benton Museum acquisition, and that funds for phase two of the Lake Elmo purchase would be reserved. The legislature appropriated $125,000 for the acquisition of the Fort Benton museum in the 1987 biennium budget. The second phase of the Lake Elmo purchase will require a $322,550 appropriation in fiscal 1988. Lake Elmo is a man-made lake near Billings the state is purchasing for a recreational area. The state's purchase agreement has an option clause which would allow the state to purchase additional acreage around the lake. The option expires July 14, 1987. The $322,550 would be to purchase the adjoining acreage.

Table 1 details the coal tax park trust fund earnings for fiscal 1987. See also Legislative Fiscal Analyst analysis of parks for additional options.

Table 1
Coal Tax Parks Trust Fund Earnings
Fiscal 1987

Funds Available		
Balance 4/30/86	$ 473,296	
Revenue Remainder Fiscal 1986	393,073	
Fiscal 1987 Revenues	1,376,227	
Total Funds Available		$2,242,596
Appropriations		
Balance of Fiscal 1986 Operations	238,241	
Fiscal 1987 Operations	685,000	
Capital Projects Funded in the Executive Proposed		
Fort Benton Museum	$ 125,000	
Lake Elmo Purchase Phase 2 (Fiscal 1988)	322,550	
Total Funds Appropriated or Reserved	$1,370,791	
Governor's General Fund Proposals		
General Fund Replacement	$ 433,553	
Executive Five Percent Reduction	(34,574)	
Net General Fund Replacement	$ 398,979	
Total Appropriations and Replacement		$1,769,770
Projected Year-End Balance		$ 472,826

Table 2 contains a list of capital projects which the executive proposal would postpone. The department has indicated that some of the funds in the Miscellaneous Coal Tax Park Improvement Account and the Council Grove State Monument Account may be used for a lawsuit the department is currently engaged in.

Table 2
Capital Projects Postponed in Governor's Budget

Fish, Wildlife & Parks Capital Projects	Cost
Parker Homestead	$ 10,000
Miscellaneous Acquisitions	36,583
Pageville School	20,000
Kleffner Ranch	30,000
Long Range Building Plan Capital Projects	
Misc. Coal Tax Park Improvements	13,403
Rosebud Battlefield	20,000
Council Grove State Monument	6,492
Elkhorn State Monument	20,000
Makoshika State Park Improvements	100
Spring Meadow	88,488
Spring Meadow	62,500
Les Mason Improvements	180,000
Glen Lake Improvements	45,000
Lake Elmo Improvements	11,592
Relocate Sign Shop	10,000
Total Cost	$554,158

There are two points the legislature should consider in evaluating the executive's proposal. First, the appropriation for the second phase of the purchase of Lake Elmo has not been made by the legislature and will not be needed until fiscal 1988. It would be possible to use the fiscal 1988 trust fund interest to fund the purchase, making fiscal 1987 funds available for the capital projects the Governor would postpone. If the funds for the Lake Elmo were taken out in fiscal 1988, between the funds set aside in table 1 for Lake Elmo $(322,550) and the projected year-end balance $(472,826) there would be sufficient funds available to fund the capital projects proposed for elimination (table 2) by the executive, while at the same time replacing all general fund in the agency.

The second point that the legislature may wish to consider is that there is projected to be a year-end fund balance of $472,826. This balance will exist even with

the funds for Lake Elmo put aside. There are sufficient funds to finance a number of capital projects for which the legislature has already appropriated funds.

ISSUE GOV. 3: DIVERT COAL SEVERANCE TAX REVENUE FROM THE FISH, WILDLIFE, AND PARKS/HISTORICAL TRUST FUND TO THE GENERAL FUND

The executive proposal would divert fiscal 1987, 1988, and 1989 coal severance tax revenues from the trust fund to the general fund. For fiscal 1987 the executive office has estimated that $1,761,000 would be diverted. The legislative fiscal analyst estimates that $1,832,729 would be the trust fund's share of the coal severance tax. Therefore, if the legislature adopted the executive's proposal an additional $71,729 could be diverted according to LFA revenue estimates.

The interest from the trust fund is used to fund park acquisition and maintenance (two-thirds) and historical projects (one-thirds). The effect of the executive recommendation would be to eliminate the growth of the trust fund. The parks and historical projects will lose revenues because less interest income will be earned. There will be less interest income because the trust fund principal will lose three years of coal severance tax allocation, fiscal 1987, 1988, and 1989. Table 3 details the projected loss to the parks and historical programs for fiscal 1987, 1988 and 1989.

Table 3
Interest Reduction to Park and Historical Programs

	Currently			Governor's Proposal		
Fiscal	Revenue Added to Trust Fund	Trust Fund	Trust Fund Interest	Trust Fund	Available for Expenditure	Difference
1986		$15,963,907		$15,963,907		
1987	$1,832,729	17,796,636	$1,829,494	15,963,907	$1,641,090	$(188,404)
1988	1,887,711	19,684,347	2,066,856	15,963,907	1,676,210	(390,646)
1989	1,944,342	21,628,689	2,370,504	15,963,907	1,749,644	(620,860)

DEPARTMENT OF FISH, WILDLIFE, AND PARKS

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	511.29	513.81	493.49	494.07	(19.74)
Personal Service	$12,250,852	$12,883,357	$12,851,435	$13,279,215	3.1
Operating Expense	7,449,499	7,370,342	8,330,506	8,097,589	9.9
Equipment	639,493	936,068	1,564,720	1,286,064	37.4
Total Operating Costs	$20,339,844	$21,189,767	$22,746,661	$22,662,868	6.9
Non-Operating Costs	1,926,611	2,740,402	7,021,957	3,632,824	32.6
Total Expenditures	$22,266,455	$23,930,169	$29,768,618	$26,295,692	9.9
Fund Source					
General Fund	$ 624,724	$ 640,619	$ 409,767	$ 448,506	(30.0)
State Special	14,399,260	15,107,712	19,253,487	16,783,459	11.1
Federal Revenue	5,308,088	6,341,925	7,881,033	6,869,780	8.3
Proprietary	1,934,383	1,839,913	2,169,331	2,193,947	19.2
Other Approp. Funds			55,000		
Total Funds	$22,266,455	$23,930,169	$29,768,618	$26,295,692	9.9

ISSUES - Fiscal 1987	General Fund	Other Funds
1. Parks Program Financing		
Option A: Revise parks trust fund allocation	$(448,506)	$448,506
Option B: Use excess trust fund interest	$(448,506)	$448,506
Option C: Use license and trust fund interest	$(448,506)	$448,506
Option D: Redirect prior year funds and trust fund interest	$(448,506)	$448,506

The Department of Fish, Wildlife, and Parks is responsible for the preservation and protection of all forms of Montana's wildlife, their habitat, and the natural and cultural resources of aesthetic, scenic, historic, scientific, and archaeological significance.

The department consists of eight divisions: Centralized Services, Field Services, Fisheries, Law Enforcement, Wildlife, Parks and Recreation, Conservation Education, and Administration. The Field Services Division is a newly created division

which includes the field activities of the seven regional headquarters, department personnel functions, game damage activities, aircraft, and private land owner relations.

The reduction of 19.74 FTE is caused by two factors: 1) 53.34 FTE were added by budget amendment in fiscal 1985 and not continued in the 1987 biennium, and 2) 33.6 FTE were added in fiscal 1987. The majority of the positions were added in the Parks Division (13.11 FTE) and Fisheries Division (7.5 FTE). The increase in non-operating expenses is a result of the legislature appropriating $2,393,000 in anticipated federal funds under the heading of legislative contract authority. As fiscal 1987 progresses the department will allocate the authority to personal services, operating expenses, and equipment as particular federal grants are received. The fiscal 1986 budget also includes $2,595,000 of capital projects in the non-operating line.

ISSUE 1: PARKS DIVISION FINANCING

For fiscal year 1987 the legislature has appropriated $448,506 general fund as part of Parks Division operating expenses. The legislature may wish to consider alternative financing to replace the general fund.

Parks Trust Fund

In fiscal 1986 2.5 percent of the coal severance tax is allocated to the Fish, Wildlife,and Parks/Historical Society Trust Fund (hereafter referred to as the trust fund). The trust fund was created by Section 15-35-108, MCA, entitled "Disposal of Severance Taxes". Section 15-35-308, MCA, stipulates the purposes of the trust fund and how the interest income from the trust fund is appropriated:

> (f) 5 percent to a nonexpendable trust fund for the purpose of parks acquisition or management, protection of works of art in the state capitol, and other cultural and aesthetic projects. Income from this trust fund shall be appropriated as follows:
>
> (i) one-third for protection of works of art in the state capitol and other cultural and aesthetic projects; and

(ii) starting July 1,1985, and ending June 30,1989, two-thirds for the acquisition, development, operation, and maintenance of any sites and areas described in 23-1-102 and, after June 30,1989, two-thirds for the acquisition of sites and areas described in 23-1-102 and the development, operations, and maintenance of sites acquired with funds allocated under this subsection;

At first glance it may appear that 5 percent of the coal severance tax is allocated to the trust fund. However, the first 50 per cent of the coal severance tax is deposited into the permanent coal tax trust fund, with the remaining 50 percent allocated and appropriated to various other purposes. It is 5 percent of the remaining 50 percent that is allocated to the trust fund, or 2.5 percent of the total coal severance tax. In fiscal 1987 the distribution formula is adjusted slightly and the trust fund will receive 2.2 percent of the coal severance tax. Since fiscal 1976 the trust fund has grown to approximately $16 million. Table 1 details the growth in the trust fund.

Table 1
Fiscal Years 1976 - 1987 History of the Parks and Arts Trust Fund

Fiscal Year	Trust Fund Balance
1976	$ 278,725
1977	758,308
1978	1,174,356
1979	1,475,732
1980	3,565,371
1981	5,325,746
1982	7,480,418
1983	9,481,542
1984	11,565,460
1985	13,859,181
1986*	15,963,907
1987*	17,796,636

*Based on Office of the Legislative Fiscal Analyst revenue projections dated 5-30-86.

Table 2, on the following page, shows that portion of the interest income earned by the trust fund available for parks acquisition, maintenance, and operations.

Table 2
Trust Fund Interest Income to Parks

Fiscal Year	Interest Income
1980	$ 84,577
1981	321,215
1982	552,367
1983	633,862
1984	618,693
1985	987,137
1986	1,600,000

One of the considerations that the legislature may wish to evaluate is reducing the rate of growth of the trust fund and redirecting a portion of the coal severance tax revenue to park operations and maintenance. At the end of fiscal 1986 the trust fund is projected to have a balance of $15,963,907. The Office of the Legislative Fiscal Analyst has estimated that the fund will grow by $1,832,729 in fiscal 1987 to $17,796,636. Table 3 on the following page shows two possible scenarios for the trust fund and interest income. Column 1 estimates the total amount of revenue from the coal severance tax which could either go into the trust fund or be used for parks operations and maintenance. A 3 percent annual growth in coal severance tax revenues is assumed in this estimate. Columns 2 and 3 detail the expected growth in the trust fund and its interest income (Wharton's February 1986 long term model - 20 year operation was used in the projections) if nothing is changed. Columns 4 and 5 show the results of redirecting one-half of the revenues to parks operations and maintenance. For fiscal 1987 the potential change would mean an increase of $822,162 in funds available for current expenditure. The table is carried out until the year 2000 for example purposes only. In 1993 that portion of the coal severance tax going to road construction and maintenance will expire. Table 3 does not reflect that adjustment in distribution and, therefore, does not reflect the long-term future distribution of coal severance tax revenues. What the table is designed to illustrate is that if the legislature should choose to redirect some of the revenues from the

trust fund for current expenditure, the trust fund will grow at a slower rate in future years and interest income will not be as great. But until approximately 1998 there will be more funds available for expenditure.

Table 3
Comparison of Option A to Existing Formula

Column	(1)	(2)	(3)	(4)	(5)	(6)
	Coal Severance Tax Revenue	- - - - - Current - - - - -		- - - - - Option A - - - - - -		Potential
Fiscal Year	Added to Trust Fund	Trust Fund Principal	Available for Expenditure[1]	Trust Fund Principal	Available for Expenditure	Expenditure Increase
1986		$15,963,907		$15,963,907		
1987	$1,832,729	17,796,636	$1,829,494	16,880,272	$2,651,656	$ 822,162
1988	1,887,711	19,684,347	2,066,856	17,824,127	2,815,389	748,532
1989	1,944,342	21,628,689	2,370,504	18,796,298	3,032,245	661,741
1990	2,002,672	23,631,362	2,682,160	19,797,634	3,248,368	566,208
1991	2,062,753	25,694,114	2,638,786	20,829,011	3,170,516	531,730
1992	2,124,635	27,818,749	2,573,234	21,891,328	3,087,265	514,031
1993	2,188,374	30,007,124	2,712,644	22,985,515	3,172,078	459,434
1994	2,254,025	32,261,149	2,822,851	24,112,528	3,236,859	414,008
1995	2,321,646	34,582,795	3,098,618	25,273,351	3,425,315	326,697
1996	2,391,296	36,974,091	3,571,697	26,468,999	3,752,553	180,856
1997	2,463,035	39,437,126	3,797,795	27,700,516	3,899,077	101,282
1998	2,536,926	41,974,051	3,953,956	28,968,979	3,997,341	43,385
1999	2,613,033	44,587,084	4,128,764	30,275,496	4,110,028	(18,736)
2000	2,691,424	47,278,509	4,373,262	31,621,208	4,270,674	(102,588)

[1] Interest only.

Table 4 on the following page shows the amounts that would be available for parks and for historical projects should Option A in table 3 be incorporated, assuming the distribution of the new revenue is the same as the distribution of the interest income.

Table 4
Distribution of Additional Revenue Under Option A

Fiscal Year	Revenue Increase	Parks	Historical
1987	$822,162	$548,108	$274,054
1988	748,532	499,022	249,510
1989	661,741	441,161	220,580
1990	566,208	377,472	188,736
1991	531,730	354,487	177,243
1992	514,031	342,687	171,344
1993	459,434	306,289	153,145
1994	414,008	276,006	138,002
1995	326,697	217,798	108,899
1996	180,856	120,571	60,285
1997	101,282	67,521	33,761
1998	43,385	28,923	14,462
1999	(18,736)	(12,491)	(6,245)
2000	(102,588)	(68,392)	(34,196)

Trust Fund Interest Account Balance

A second consideration for legislative review would be to use the excess trust fund interest to replace the general fund, or a combination of both. Table 5, on the following page, details an updated (April 30, 1986) analysis of expenditures and revenues from trust fund interest. Based upon a revised revenue estimate that forecasts an additional $207,408 in trust fund interest for the biennium, the projected fund balance at the end of the biennium totals $640,197. The fiscal 1987 Park's program budget includes $448,506 of general fund support. The projected balance could be used to replace the general fund, leaving a balance in the trust fund interest account of $191,691.

Table 5
Coal Tax Parks Trust Fund Earnings

Revenues		
Balance 4/30/86	$ 473,296	
Revenue Remainder Fiscal 1986	393,073	
Fiscal 1987 Revenues	1,376,227	
Total Available		$2,242,596
Appropriations		
Fiscal 1986 Operations		
Balance of Fiscal Year	$ 238,241	
Fiscal 1987 Operations	685,000	
Fish, Wildlife, and Parks Capital Projects		
1984 Parker Homestead	10,000	
1984 State Park Capitol	36,583	
1984 Pageville School	20,000	
1986 Ft. Benton Museum	125,000	
1986 Kleffner Ranch	30,000	
Long Range Building Plan Capital Projects		
1980 Misc. Coal Tax Park Improvement	13,403	
1981 Rosebud Battlefield	20,000	
1981 Council Grove State Monument	6,492	
1983 Elkhorn State Monument	20,000	
1983 Makoshika State Park Improvement	100	
1985 Spring Meadow	88,488	
1986 Spring Meadow	62,500	
1986 Les Mason Improvement	180,000	
1986 Glen Lake Improvement	45,000	
1986 Lake Elmo Improvement	11,592	
1986 Relocate Sign Shop	10,000	
Total Appropriations		$1,602,399
Balance Remaining		$ 640,197

Revision of Capital Projects

The legislature may also wish to reevaluate some of the capital projects. Spending authority still exists for five projects dating back to 1983 or earlier: 1) fiscal 1980 miscellaneous park improvements, 2) fiscal 1981 Rosebud Battlefield, 3) fiscal 1981 Council Grove State Monument, 4) fiscal 1983 Elkhorn State Monument, and

5) fiscal 1983 Makoshika State Park improvements. Are these still the legislature's priority projects that need to be continued? If not, the funds could be reappropriated to replace general fund in the Parks Program.

The Miscellaneous Coal Tax Park Improvement funds and the Council Grove State Monument funds are being held pending the outcome of a lawsuit against the state, and may not be available for reappropriation until after the lawsuit is concluded. According to the department a portion of the funds would be used to pay a consultant and a portion may be necessary to pay a court judgment. Funds not expended would revert. The $20,000 for Rosebud Battlefield will not be expended and could be reallocated. The $20,000 Elkhorn State Monument project is ready to begin, but is being held up by the department until after the special session. The Makoshika State Park improvements have been completed, and the $100 balance will be reverted. Therefore, depending on whether the legislature wants the Elkhorn State Monument project to continue, up to $40,100 could be redirected.

Refinancing Projects

Three projects currently appropriated from parks trust fund interest, Les Mason Improvements, Glen Lake Improvements, and Lake Elmo Improvements, could possibly be financed with fish and game license fees. The total appropriated for these three projects is $236,592. In the department's review process of potential trust fund projects, fishing was identified as a recreational activity associated with each of the projects. Therefore, it may be possible to use fishing and hunting license fees to finance the improvements at these three sites. The fishing and hunting license fee account had a balance of $8,681,101 at the end of fiscal 1985. If fishing and hunting license fee funds were used to replace trust fund interest the potential saving would be $236,592. These funds could then be used to replace general fund within the Parks Division.

Option A: Amend Section 15-35-108, MCA, to redirect one-half of the Coal Severance Tax revenue currently going to the trust fund to be used for operations and maintenance as detailed above. This would create an additional $548,108 of state special revenue funds, which could be used to replace the $448,506 in general fund within the Parks Division. The remaining $99,602 in state special revenue funds could be used to expand the Parks Division or be put back into the trust fund.

Option B: Replace the $448,506 of general fund in the Parks Division with a portion of the projected fiscal 1987 year-end balance in parks trust fund interest.

Option C: Redirect $40,100 from prior year projects plus from the trust fund interest balance to the operations of the Parks Division.

Option D: Refinance $236,592 of projects currently appropriated from trust fund interest with fish and game license fees. This would allow the legislature to replace the $448,506 of general fund in the Parks Division with $236,592 of fishing and hunting fees and with $211,914 from the projected fiscal 1987 year-end balance in the trust fund.

STATE LANDS

Budget Items	Fiscal 1987 House Bill 500	Fiscal 1987 Governor's Budget	Difference
FTE	303.08	303.08	0.00
Personal Service	$ 7,097,086	$ 7,058,668	$ 38,418
Operating Expense	5,594,820	5,518,316	76,504
Equipment	553,003	548,159	4,844
Total Operating Costs	$13,244,909	$13,125,143	$119,766
Non-Operating Costs	6,901,788	6,505,272	396,516
Total Expenditures	$20,146,697	$19,630,415	$516,282
General Fund	$ 6,753,899	$ 6,416,204	$337,695
State Special	3,385,851	3,216,558	169,293
Federal Revenue	9,821,069	9,821,069	-0-
Proprietary	185,878	176,584	9,294
Total Funding	$20,146,697	$19,630,415	$516,282

ISSUES IN GOVERNOR'S BUDGET - Fiscal 1987	General Fund	Other Funds
Gov. 1. 5 Percent Cut		
A. Central Management	$ (13,250)	$(29,272)
B. Reclamation Division	$ (52,081)	$(38,415)
C. Resource Development	-0-	$(46,329)
D. Forestry Division	$(272,364)	$(64,571)

ISSUE GOV. 1: 5 PERCENT CUT

A. Centralized Management

1. Reduce 5 percent of the general fund for county equalization payments - $13,250. The county equalization payment is the state's payment in lieu of taxes to counties in which the state owns over 6 percent of the county's land mass.

2. Reduce the aviation revolving account - $9,294. This account is used to pay for the maintenance and operations of the department's

aircraft. It is funded through an hourly rate charged the aircraft's user. For further explanation of this account see LFA Issue 1.

3. Reduce the development of the trust fund management data processing system - $19,978.

B. Reclamation Division

1. Reduce the Environmental Analysis Bureau - $38,415. This unit no longer exists so this cut does not affect any program. It was funded with environmental impact fees.

2. Reduce equipment, travel, and contract services in the coal, hard rock, and open cut programs - $52,081.

C. Resource Development

1. Reduce capital outlay - $46,329. This program is funded by the Resource Development account whose revenues are derived from a portion of the income from state lands. Because revenues have been below early estimates the department has already reduced the program expenditures by more than 5 percent. Therefore, the 5 percent reduction in appropriations will have no affect on the program because the department had previously reduced the planned expenditures in line with the known revenue shortfall.

D. Forestry Division

1. Eliminate capital equipment purchases, $272,364 financed with general fund and $64,571 financed with state special revenues. In fiscal 1987 the legislature appropriated $493,336 for equipment purchases, replacements, and parts. The equipment is primarily used for forest fire suppression.

DEPARTMENT OF STATE LANDS

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	260.35	267.83	291.55	303.08	35.25
Personal Service	$ 6,101,497	$ 7,988,493	$ 7,447,827	$ 7,467,598	(6.5)
Operating Expense	5,172,744	9,990,837	8,471,452	5,594,820	(44.0)
Equipment	500,231	658,544	809,285	553,003	(16.0)
Total Operating Costs	$11,774,472	$18,637,874	$16,728,564	$13,615,421	(26.9)
Non-Operating Costs	3,558,715	5,078,505	6,399,152	6,901,788	35.9
Total Expenditures	$15,333,187	$23,716,379	$23,127,716	$20,517,209	(13.5)
Fund Source					
General Fund	$ 5,791,139	$ 7,837,828	$ 8,663,152	$ 7,013,905	(10.5)
State Special	2,742,544	2,675,166	4,902,401	3,427,337	28.1
Federal Revenue	6,696,949	13,072,350	9,363,906	9,890,089	(24.3)
Proprietary	102,555	131,035	154,257	185,878	41.9
Other Funds	-0-	-0-	44,000	-0-	---
Total Funds	$15,333,187	$23,716,379	$23,127,716	$20,517,209	(13.5)

ISSUES - Fiscal 1987	General Fund	Other Funds
2. Forest Fire Suppression Costs		
Option A: Increase fees to private landowners	$(237,000)	$237,000
3. Slash Disposal on Private Lands		
Option A: Increase slash charge to $10.30	$(20,600)	$20,600
Option B: Raise admin. assessment to 6.8 percent	$(20,600)	$20,600
Option C: Increase slash charges to $18.75	$(20,600)	$20,600
Option D: Raise admin. assessment to 12.5 percent	$(20,600)	$20,600
4. Private Forest Land Assistance		
Option A: Eliminate general fund support	$(114,402)	-0-
Option B: Eliminate general fund support and transfer federal funds	$(187,402)	-0-
Increases In General Fund Revenue		
1. State Lands Aircraft Direct Operating Costs		
Option A: Limit proprietary account to $30,000	$171,968	-0-
Option B: Transfer to general fund	$171,968	-0-

The Department of State Lands administers lands owned and held in trust by the state of Montana. The primary purpose of the department is to secure the highest

reasonable return from the lands it manages. In addition, the department has responsibility for fire protection on state and private lands and administers strip, underground, open-cut, and hard rock mining permits and the federal abandoned mine reclamation program.

There are four major expansions in the Department of State Lands from fiscal 1985 to 1987: 1) 3.0 FTE land use specialists were added to the Land Administration Division; 2) 17.0 FTE were added to the Forestry Division for expanded timber harvest; 3) the state is taking over the fire protection of a portion of the White Sulphur Springs area; and 4) eleven counties were added to the state-county cooperative fire program. Fiscal 1985 expenditures include fire suppression costs which were paid through supplemental appropriation and not part of the fiscal 1987 budget. Other funds in fiscal 1986 are long range building funds for a fire crew building.

ISSUE 1: STATE LANDS AIRCRAFT DIRECT OPERATING COSTS

The Department of State Lands charges its programs and other state agencies for the direct operating cost associated with the department's air operations. The revenue generated from the direct air operation costs are deposited into a proprietary revenue account. Since fiscal 1982 the balance in this account has grown to approximately $200,000. In looking at the revenue and expenditure stream for the proprietary account, it would appear that a maximum monthly balance of $30,000 would be sufficient to meet the department's monthly needs.

The direct operating costs include: fuel, oil, radio repairs, annual inspections, 100 hour inspections, normal airframe repairs, and engine overhauls. The department charges air operations users various fees based upon the aircraft used. The department operates six aircraft.

Table 1 details, month by month, the revenues and expenditures of the air operations proprietary account.

Table 1
Air Operations Proprietary Account

Fiscal Year	Month	Expenditures	Revenues	Rev. Minus Expenditures	Monthly Balance	Capped Fund Balance*	Surplus*
1983			$40,689	$ 40,689	$ 40,689	$ 30,000	$ 10,689
1984	July	$ 1,290	1,460	170	40,859	30,000	170
	Aug	9,922	25,416	15,494	56,353	30,000	15,494
	Sept	16,010	47,098	31,088	87,440	30,000	31,088
	Oct	3,551	16,023	12,472	99,912	30,000	12,471
	Nov	15,916	10,329	(5,587)	94,324	24,413	
	Dec	8,445	5,674	(2,771)	91,554	21,642	
	Jan	2,072	1,164	(908)	90,646	20,734	
	Feb	13,179	3,685	(9,495)	81,151	11,239	
	Mar	3,622	5,655	2,033	83,183	13,272	
	Apr	2,129	3,944	1,815	84,998	15,087	
	May	4,620	4,581	(39)	84,959	15,048	
	Jun	8,529	3,905	(4,624)	80,336	10,424	
Year End Adj.		$17,242	$21,879	$ 4,638	$ 84,973	$ 15,062	
1985	July	$10,473	$37,142	$ 26,669	$111,642	$ 30,000	$ 11,731
	Aug	16,945	836	(16,109)	95,533	13,891	
	Sept	8,901	68,712	59,811	155,344	30,000	43,702
	Oct	26,587	35,564	8,977	164,321	30,000	8,977
	Nov	9,453	9,839	386	164,707	30,000	386
	Dec	860	8,790	7,930	172,636	30,000	7,930
	Jan	2,300	4,193	1,893	174,529	30,000	1,893
	Feb	5,248	4,350	(898)	173,631	29,102	
	Mar	7,742	2,377	(5,366)	168,266	23,737	
	Apr	4,014	6,193	2,179	170,445	25,916	
	May	15,715	6,913	(8,802)	161,643	17,114	
	Jun	14,311	3,846	(10,465)	151,177	6,648	
Year End Adj.		$17,628	$27,670	$ 10,042	$161,220	$ 16,691	
1986	July	$30,861	$	$(30,861)	$130,358	$(14,171)**	$
	Aug	13,996	62,117	48,121	178,479	30,000	3,950
	Sept	15,623	32,954	17,330	195,809	30,000	17,330
	Oct	9,571	8,954	(617)	195,192	29,383	
	Nov	6,070	12,844	6,774	201,966	30,000	6,157
	Dec	7,789	6,234	(1,555)	200,411	28,445	
	Jan	3,868	743	(3,126)	197,285	25,319	
						Total Surplus	$171,968

*If there were a fund cap at $30,000, these two columns would represent the fund balance and any potential surplus in any given month.

**The negative balance occurs only because there was a delay in reporting revenue.

Table 1 starts with a balance of $40,689 carried forward into fiscal 1984 from fiscal 1983. The monthly balance column indicates the account balance at the end of each month. As can be seen, the balance as of January 1986 is $197,285. The 6th column represents the fund balance, by month, if a $30,000 limit were placed on the fund and any excess were transferred to general fund. Column 7 indicates the surplus, by month, that could have been returned to the general fund. In looking down column 6, the lowest balance would have been in July 1986, when the balance dropped to a negative $14,171. The negative balance occurred because the department did not credit any revenues for the month. Other than July 1986, the balance would have never dropped below $6,600.

Option A: Introduce legislation that would cap the maximum amount that could be maintained in the air operations proprietary account in any one month to $30,000 with any excess to be transferred to the general fund. This would immediately transfer approximately $171,968 to the general fund.

Option B: Make a one-time transfer of $171,968 from the proprietary account to the general fund.

ISSUE 2: FOREST FIRE SUPPRESSION COST

Private landowners currently pay one-third of presuppression forest fire costs. The difference between presuppression and total forest fire protection costs is that total forest fire protection costs include the forest fire suppression costs as well as presuppression costs. Presuppression costs are all forest fire costs except those directly related to putting out a fire. When a fire needs attention, the costs associated with fighting that fire are called suppression costs. The state general fund pays all costs of fire suppression.

A report entitled "Timber Management and Forest Fire Protection Costs in Montana, a Report and Recommendations of the Joint Interim Subcommittee No. 2 of

the 49th Legislature," includes the following passage, which indicates that the committee assumes that private landowners pay for one-third of forest fire protection costs.

Funding for Forest Fire Districts and Affidavits

> Funding of wildfire prevention, control, and suppression has been cooperatively provided from private, state and federal sources based on the combination of benefits received by each party, the need for protection on state lands, and the public fire threat to private lands and resources. Based on the findings of a 1958 study by Battelle Institute, forest fire protection costs have been assigned one-third to private property and two-thirds to public funding.

Also, Section 76-13-207, MCA, requires that the Department of State Lands "prepare an annual operation assessment plan in which fire protection costs are determined." The section further requires that "the department shall request the legislature to appropriate the state's portion of the cost. After the appropriation is made by the legislature, the department shall cause an assessment to be made on the owners of classified forest lands . . . sufficient to bring the total amount received from such landowners to no greater than one-third of the amount specified in the appropriation." The key phrase of this section is again "fire protection costs." Section 76-13-102, MCA, contains the definition of forest fire protection, which is; "means the work of prevention, detection, and suppression of forest fires . . ." The legislature has all ready determined that private land owners should pay one-third of fire suppression costs.

If it is the legislature's intent, as stated in the Joint Interim Subcommittee's report and in Section 76-13-207, MCA, that private land owners should pay one-third of forest fire protection costs, there are a number of possible alternatives to include the annual cost of forest fire suppression.

Because of the wide cost variance from year to year in forest fire suppression costs, if the fee to private landowners was based on the prior year costs the fee would go up and down quite dramatically from year to year. If some stability is to be built into a possible fee schedule some sort of yearly cost averaging formula must

be developed. By using cost averaging, there would be years in which private landowners would be paying for more forest fire fighting services than they will receive and years in which they will receive more services than those for which they have paid.

In determining what fire protection costs it will charge the state, the U.S. Forest Service looks at a 10 year history of fire protection costs and averages those ten years, minus the high and low cost years. The state may want to use a similar approach in charging private landowners. Table 2 details a twelve year period from 1975 to 1986, discarding the high cost year of 1986 ($3,290,436) and the low cost year of 1977 ($49,731) from the twelve year average. The last two columns adjust the cost of the previous year's fires to a 1987 basis. These columns are necessary to project a fire suppression cost based upon the ten year average of actual costs. The average yearly fire cost would be $710,426, of which the state would charge private landowners one-third, or $236,809 per year. Therefore, the assessment charged private landowners in fiscal 1987 should be increased to include an additional $237,000. The state currently collects approximately $1,100,000 per year from private landowners for presuppression costs. The state charges landowners 17 cents per acre, or a minimum of $14. The charge is set in Section 76-13-210, MCA. If these fees were raised approximately 25 percent the average cost of fire suppression could be included.

Table 2
Adjusted 12 Year Fire Suppression Costs

Calendar Year	Number of Forest Fires	Net General Fund Cost	CPI 1987 Est.	Adjusted Total Costs
1975	145	$ 193,240	111.97%	$ 409,612
1976	211	67,255	100.41%	134,786
1978	180	572,384	74.87%	1,000,940
1979	471	58,749	57.18%	92,339
1980	158	1,159,880	38.45%	1,605,879
1981	337	62,615	25.44%	78,545
1982	197	775,141	18.19%	916,173
1983	216	145,223	14.51%	166,296
1984	316	763,899	9.84%	839,037
1985	422	1,752,289	6.18%	1,860,650
TOTAL	2,653	$5,550,675		$7,104,257
AVERAGE		$ 555,068		$ 710,425

Option A: Increase the forest fire protection fees to private landowners by 25 percent, offsetting general fund costs by $237,000.

ISSUE 3: SLASH DISPOSAL ON PRIVATE LANDS

Section 76-13-401 through 413, MCA, entitled, "Control of Timber Slash and Debris," requires the Department of State Lands to reduce and manage lumbering slash and debris piles so they don't present a fire hazard. The department is responsible for insuring the removal of fire hazards from both state owned land and private forest lands. In administering the program on privately owned forest lands, the department has two methods by which it collects its costs.

The first method for administering the program is on industrial forest lands. On industrial forest lands where over 2 million board feet are to be cut, the department may enter into a contract with the lumberer whereby the lumberer is required to post a bond to insure that the slash piles are disposed of properly. The bond must be at least equal to $6 for every thousand board feet to be lumbered. The lumbering

company is required to contact the department when the slash has been properly disposed of, to allow department inspection of the site. The cost of the inspection is to be paid by the lumberer. If the department determines that the site has been adequately cleaned up, the contract is completed and the bond is released. If the department determines that the site hasn't been adequately cleaned up, the lumberer is given the opportunity to do the job correctly. If the lumberer doesn't do the cleanup job properly, the department uses the bond proceeds to clean up the site. The department only collects administrative expenses when they visit the site.

The second method of administering the program is used on nonindustrial forest lands. The department collects $6 per thousand board feet from the purchaser of the logs and deposits it into a state holding account until the department can check to see if the slash has been properly disposed of. The state then pays the logger (or whoever cleans up the slash) when the job has been satisfactorily finished. The state retains 4 percent ($.24) of the $6 for administrative expenses. The department estimates that 140,000,000 board feet are cut annually on nonindustrial forest lands. At $6/mbf, the holding account has a running balance of approximately $840,000 at any one time. Therefore, the 4 percent administration fee generates $33,600 annually. The state's general fund also earns interest on the logger's funds while they are held by the state.

Most of the costs incurred by the department are related to inspecting nonindustrial logging activities. The industrial logger is charged for the actual expenses related to an inspection visit, while the costs of inspecting the nonindustrial logging site are financed by the 4 percent administration fee. The $.24/mbf has not been sufficient revenue for the state to carry out the program. The general fund has had to supplement the $.24/mbf to ensure that all of debris sites are adequately inspected.

Table 3 details the cost of the slash program since fiscal 1981. It includes the percentage and amount of general fund which has been needed to support the slash program. From fiscal 1981 to fiscal 1985 the general fund has financed over 50 and up to 84 percent of the program.

Table 3
Budget History of the Slash Program

Fiscal Year	Total Budget	General Fund Portion	Percent General Fund
1981	$150,937	$107,200	71
1982	153,207	81,200	53
1983	134,700	87,600	65
1984	109,800	76,700	70
1985	121,892	102,400	84
1986*	114,884	23,294	20
1987*	115,724	20,531	18

*Appropriated

The apparent drop in general fund support in fiscal 1986 and 1987 is due to legislative actions in the 1985 session. During the legislative budget deliberations it was discovered that the slash account would have had a $106,000 balance in the biennium. The legislature used $24,843 of the fund balance to reduce the general fund support for the slash program.

The Department of State Lands also estimated that the account would earn revenues of $80,000 in fiscal 1986 and $82,000 in fiscal 1987. The legislature used this assumption to build the slash program budget. As table 4 on the following page indicates, the revenues for the first nine months of fiscal 1986 are well below the department's estimate. Using the first nine months as a guide, revenues for the biennium were reestimated. As can be seen on table 4, the slash account is projected to have a negative balance at the end of fiscal 1987. This negative balance is attributable to the overestimated revenues.

Table 4
Department of State Lands Slash Program

	Original Revenue Estimate	Revised Revenue Estimate
July 1, 1985 Slash Fund Balance	$106,000	$106,412
Projected Fiscal 1986 Revenues	80,000	29,332
Fiscal 1986 General Fund Appropriation	23,294	23,294
Total Funds Available for Fiscal 1986	$209,294	$159,038
Projected Fiscal 1986 Expenditures	114,884	111,731
July 1, 1986 Slash Fund Balance	$ 94,410	$ 47,307
Projected Fiscal 1987 Revenues	82,000	43,600
Fiscal 1987 General Fund Appropriation	20,531	20,531
Total Funds Available for Fiscal 1987	$196,941	$111,438
Projected Fiscal 1987 Expenditures	115,784	115,000
July 1, 1987 Slash Fund Balance	$ 81,157	$ (3,562)

There are two alternatives which the legislature may wish to consider to eliminate general support of the slash program. First is an alternative which would eliminate the general fund for fiscal 1987 and leave a zero balance in the slash account. There are two options available to accomplish this alternative, which require raising an additional $24,183 of slash revenues. Both options use the assumption that $10,000 will come from industrial foresting and $6/mbf and 4 percent administration fee raise $33,600. Elimination of the projected deficit of $3,562 and replace $20,531 of general fund would require either raising the $6/mbf to $10.30/mbf or raising the administration fee from 4 percent to 6.8 percent.

If either of the above options were adopted, the legislature would again face a slash program financing problem in fiscal 1988, as both of the above options use the prior year's fund balance to finance the program and that balance will not be

available in the next biennium. Fully funding the program at current level from current year fees would require fee revenues of over $115,000 per year. If the legislature wanted to implement a longer term solution, it would require implementing one of two following options, which would raise approximately $115,000 in slash fees: raising the $6/mbf to $18.75/mbf or raising the 4 percent to 12.5 percent. Either one of these options will generate $115,000 when coupled with the fees for inspecting industrial slash and would eliminate the general fund from the program and fully fund the program in future years.

Option A: Increase the $6/mbf to $10.30/mbf to raise an additional $24,083, for a general fund savings of $20,600.

Option B: Increase the 4 percent administration fee to 6.8 percent to raise an additional $24,083, for a general fund savings of $20,600.

Option C: Increase the $6/mbf to $18.75/mbf to raise an additional $71,400, for a general fund savings of $20,600.

Option D: Increase the 4 percent administration fee to 12.5 percent to raise an additional $71,400, for a general fund reduction of $20,600.

ISSUE 4: PRIVATE FOREST LAND ASSISTANCE

The Department of State Lands, through the Forestry Division, administers the Private Land Assistance Program. The program provides private forest landowners with technical advice and assistance in the management of forest lands. The division can advise the landowner on forest management, including marketing, forest products, timber stand improvement, forest grazing, christmas trees, and forest taxation. For fiscal 1986, the program has a budget of $187,402 of which $114,402 is general fund. The balance of $73,000 is federal funds. Program costs for fiscal 1987 are assumed to be the same as fiscal 1986.

A July 1985 report funded by the department, entitled "An Investigation of Some Physical and Economic Effects of Private Forestry Assistance (PFA) in Montana,"

estimated that the total increase in the average private forest landowner's wealth due to PFA is over $9,000. There are approximately 70 timber sale assists per year therefore, gross before-tax benefits are approximately $630,000.

The one question that is not answered by the 1985 report is whether investing $187,402 of federal and state tax dollars to add $630,000 to the state's economy is a good investment. The state could expect to receive an additional $35,000 in income tax revenue, which assumes that the average tax rate on each additional $9,000 would be 5.5 percent. It appears the state is not making a good investment of its $114,402 to receive a return of $35,000.

According to the U.S. Forest Service at Missoula, the funds that the state puts into fire suppression are used as the state match for the federal funds. Therefore, if general fund support for the program was eliminated, the state would not jeopardize its eligibility for the federal funds.

The discontinuance of the program by the state would not leave landowners without services. A recent department publication entitled "Montana Consultant Foresters" lists 29 firms with 83 graduate foresters who provide timber inventory and appraisal, timber harvesting and marketing, and other services currently provided by the state. Therefore, services provided by the state could be performed by the private sector.

If general fund support for this program was removed, there are two options which the legislature could consider for the remaining federal funds. The first alternative would be to leave the federal funds in the Private Forest Assistance Program and direct the department to continue the program with only federal funds. The second alternative would be to redirect the federal funds to another forestry program, such as the Nursery or Forest Fire Programs. The $73,000 of federal funds could be used to reduce general funds in either of those two programs.

The Nursery and Forest Fire Programs are suggested as possible programs which could use the federal funds because the authorized uses* of the federal grant that funds the private assistance program include "developing genetically improved tree seeds; producing and distributing tree seeds and seedlings; reforestation, . . . the prevention, control, suppression, and prescribed use of fires." The activities of the Nursery and Forest Fire Programs fit the uses described.

In choosing any of the options described in this issue the legislature runs the risk of losing the $73,000 of federal funds. The U.S. Forest Service has discretionary authority over what types of programs it will contract with the state to provide.

Option A: Eliminate general fund support for the program and save approximately $114,402 of general fund dollars, but continue the federally funded portion of the program.

Option B: Eliminate the program and transfer the $73,000 of federal funds to either the Nursery or Forest Fire Program and reduce their general fund equivalently. This would reduce general fund a total of $187,402.

---

*The "uses" are described in the use and use restriction section of the "Catalog of Federal Domestic Assistance 1985."

DEPARTMENT OF LIVESTOCK

Budget Items	Fiscal 1987 House Bill 500	Fiscal 1987 Governor's Budget	Difference
F.T.E.	121.61	114.61	7.00
Personal Service	$3,142,858	$2,939,753	$203,105
Operating Expense	1,522,115	1,514,679	7,436
Equipment	131,542	131,542	-0-
Total Operating Costs	$4,796,515	$4,585,974	$210,541
Non-Operating Costs	2,300	2,300	-0-
Total Expenditures	$4,798,815	$4,588,274	$210,541
General Fund	$ 672,790	$ 639,150	$ 33,640
State Special	3,538,025	3,361,124	176,901
Federal Revenue	588,000	588,000	-0-
Total Funding	$4,798,815	$4,588,274	$210,541

ISSUES IN GOVERNOR'S BUDGET - Fiscal 1987	General Fund	Other Funds
Gov. 1. 5 Percent Cut		
A. Centralized Services	$(3,585)	$(14,625)
B. Diagnostic Laboratory	$(25,458)	$(20,141)
C. Disease Control	-0-	$(52,595)
D. Milk and Egg	$(3,483)	-0-
E. Inspection & Control	-0-	$(37,724)
F. Predator Control	-0-	$(51,816)
G. Rabies Control	$(1,114)	-0-

ISSUE GOV. 1: 5 PERCENT CUT

A. Centralized Services: Eliminate one position currently not filled.

B. Diagnostic Lab: Eliminate one veterinarian position which is currently not filled.

C. Disease Control: Because of the reduction in the number of livestock, this unit was able to eliminate three positions and the program currently has three positions vacant.

D. Milk and Eggs: Reduce the number of production facilities inspections.

E. Inspection and Control: Because of the livestock reduction, there are fewer animals to inspect and the department will be using fewer part-time inspectors at the markets.

F. Predator Control: A new and faster helicopter has eliminated the need for two positions which are currently vacant.

G. Rabies Control: General program reduction. Please refer to LFA Issue 1 in the Department of Livestock section.

DEPARTMENT OF LIVESTOCK

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	122.61	121.61	116.61	121.61	(0.00)
Personal Service	$2,922,627	$2,958,491	$3,135,504	$3,298,040	11.5
Operating Expense	1,366,928	1,431,864	1,522,393	1,522,115	6.3
Equipment	77,089	330,006	214,605	131,542	(60.1)
Total Operating Costs	$4,366,644	$4,720,361	$4,872,502	$4,951,697	4.9
Non-Operating Costs	3,377	-0-	2,300	2,300	N/A
Total Expenditures	$4,370,021	$4,720,361	$4,874,802	$4,953,997	4.9
Fund Source					
General Fund	$ 593,533	$ 610,869	$ 654,157	$ 694,331	13.7
State Special	3,258,094	3,494,079	3,632,645	3,671,666	5.1
Federal Revenue	518,394	615,413	588,000	588,000	(4.5)
Total Funds	$4,370,021	$4,720,361	$4,874,802	$4,953,997	4.9

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. Rabies Control		
Option A: Replace General Fund	$(68,841)	$68,841
Option B: Reduce General Fund to Fiscal 1985 Share	$(32,789)	$32,789

The Department of Livestock is administered by the Board of Livestock, whose seven members are appointed by the Governor. Each member must be an active livestock producer. Day-to-day supervision of the department is conducted by the executive secretary. The budget approved by the legislature draws 86 percent of its support from assessments and taxes on livestock, with the remainder coming from the general fund. The general fund is used to support the Milk and Egg Program and parts of the Centralized Services, Diagnostic Laboratory, and Rabies Control Programs. Total expenditures increased 4.9 percent. The Rabies Control Program was increased $54,481 per year to pay for the costs associated with the state

veterinarians' work on the program, with the remainder of the increase due primarily to inflation.

ISSUE 1: RABIES CONTROL

Rabid skunks represent a potential health and safety problem to humans, pets, livestock, and wildlife. The main objective of the Rabies Control Program is to eliminate the rabid skunk population within an area that has proven rabies carriers. When a rabid skunk is identified, the department attempts to eliminate all skunks within a three mile radius. The main weapon which is used to kill the skunks is eggs containing strychnine. For fiscal year 1987 the legislature appropriated $83,841 to the department to administer this program. Of this total, $15,000 is a grant of fish and game license fees from the Department of Fish, Wildlife, and Parks and $68,841 is general fund.

Prior to the 1987 biennium the Rabies Control Program had provided only for supplies and travel and hourly pay for contract rabies control agents. Department personnel who worked on the program were not charged as a part of the program cost. Because of anticipated declines in livestock assessment revenues, the legislature approved the department's request to charge the portion of the district state veterinarians' salaries, per diem, and mileage to the Rabies Control Program that reflected their work on rabies. An aggregate of 1.2 FTE were transferred from the Disease Control Program at a total general fund cost of $54,481 per year before pay increases. In fiscal 1985 the general fund financed 43 percent of the program's costs, with fish and game general license revenue financing 57 percent. In fiscal 1986 the general fund is financing 82 percent of the program costs, while fish and game license revenues are financing only 18 percent.

The adjustment increasing general fund support for the rabies program occurred in the latter part of the 1985 legislative session. Increased use of fish and game license funds was not considered at that time. Arguments for increased use of fish

and game license funds may be found in the Department of Fish, Wildlife and Parks obligation to protect game and human life. A skunk by definition (Section 87-2-101, MCA) is a predatory animal. The Department of Fish, Wildlife, and Parks is authorized by law to "appropriate moneys from the funds (the fishing and hunting license fee fund) at its disposal for the extermination or eradication of predatory animals that destroy fish, game, or fur-bearing animals or game or nongame birds." According to the Department of Livestock the rabid skunk poses a threat of spreading rabies to raccoon, fox, badgers, and other wild animals.

In fiscal 1986 The Department of Fish, Wildlife, and Parks received a budget amendment for a Grizzly Bear Management Program. The purpose of the program was to "reduce grizzly bear/human conflicts which have recently escalated to dangerous levels...". One of the reasons used by the department to justify the program was that the bears were killing livestock (sheep, goats, and cattle) and presenting a potential threat to humans. The budget amendment authorized expenditures of $45,455 of fishing and hunting license fees for this program.

There are a great deal of similarities between the Rabies Program and the Grizzly Bear Management Program. Both are designed to reduce the number of incidents where a wild animal presents a potential safety and health problem for humans and to protect livestock. The main difference in the two programs is how they are funded. The Grizzly Bear Management Program is funded entirely with fishing and hunting license fees, while the Rabies program is financed primarily with general fund. Under the definition of predator the eradication of rabid skunks qualifies for fishing and hunting license fee funding. The fishing and hunting license fee account had an ending fund balance of $8,681,101 in fiscal 1985.

Option A: Replace the general fund support of the Rabies Control Program with fishing and hunting license fees. The savings to the general fund would be $68,841 in fiscal 1987.

Option B: Return to the fiscal 1985 ratio of funding the program. Fishing and hunting license fees would finance 57 percent, or $47,789 and the general fund would finance 43 percent, or $36,012. This would reduce general fund expenditures by $32,789.

DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION

Budget Items	Fiscal 1987 House Bill 500	Fiscal 1987 Governor's Budget	Difference
FTE	253.79	247.79	6.00
Personal Service	$ 6,264,655	$ 6,105,599	$ 159,056
Operating Expense	4,776,858	3,585,682	1,191,176
Equipment	51,497	49,497	2,000
Total Operating Costs	$11,093,010	$ 9,740,778	$1,352,232
Non-Operating Costs	1,627,952	1,259,562	368,390
Total Expenditures	$12,720,962	$11,000,340	$1,720,622
Funding Source			
General Fund	$ 5,552,574	$ 4,549,295	$1,003,279
State Special	5,986,865	5,269,522	717,343
Federal Revenue	1,181,523	1,181,523	-0-
Proprietary	-0-	-0-	-0-
Other Funds	-0-	-0-	-0-
Total Funding	$12,720,962	$11,000,340	$1,720,622

ISSUES IN GOVERNOR'S BUDGET	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
Gov. 1. 5 Percent Cut		
A. Centralized Services	$(52,470)	$(17,505)
B. Oil and Gas	-0-	$(46,663)
C. Conservation Districts	$(17,778)	$(660)
D. Water Resources	$(184,661)	$(63,710)
E. Energy Division	$(23,370)	$(170,805)
Gov. 2. Redirect Water Development Funds and Resource Indemnity Trust Interest to Replace General Fund	$(725,000)	$725,000
Gov. 3. Delay Alternative Energy Loans and Grants		$(1,143,000)

ISSUE GOV 1: 5 PERCENT CUT

A. Centralized Services: Leave 1.5 positions in the Cartography and Publications Bureau vacant; reduce the Board of Natural Resources' budget $9,000.

B. Oil and Gas: Keep two field inspector positions vacant.

C. Conservation Districts: Reduce division operating expenses - $9,270; reduce pass-through grants to counties - $5,000; reduce the saline seep project - $3,500.

D. Water Resources: A part-time administrative clerk and a hydropower engineer position will remain vacant; six stream flow gauging stations will be eliminated; vacant positions in the Water Rights Bureau will be kept vacant; aerial photo purchases will be cut; water rights decree mailings by the water court will be reduced; equipment purchases will be reduced.

E. Energy Division: Reduce alternative energy grants and loans; keep an administrative position and a coal analyst position vacant; reduce other general operations.

ISSUE GOV. 2: REDIRECT WATER DEVELOPMENT AND RESOURCE INDEMNITY TRUST INTEREST TO REPLACE GENERAL FUND

The executive has proposed replacing $725,000 of general fund in the Water Resources Division with $500,000 of Resource Indemnity Trust (RIT) interest and $225,000 of Water Development Funds. The executive proposal contains four parts: (1) transferring $200,000 of RIT interest from a $277,000 DNRC appropriation to administer the Resource Indemnity Trust Fund Grant Program; (2) transferring $300,000 of RIT interest from the environmental contingency fund; (3) transferring $125,000 of water development funds from the DNRC emergency grant appropriation; and (4) reducing $100,000 of the water development funds appropriation for water project grants. The $100,000 would then be used to offset general fund.

The first part of the executive proposal is to transfer to the general fund $200,000 (of $277,000 total RIT interest) appropriated to DNRC to administer the Resource Indemnity Trust Fund Grant Program. Through April 1986, the department had expended only $4,858 of the $277,000. Therefore the $200,000 is available for transfer.

The second part of the executive proposal is to reduce the percentage of RIT interest funds appropriated to the environmental contingency account from 5 percent to 1.8 percent. This percentage reduction would transfer $300,000 according to the executive proposal. In examining the legislation appropriating and allocating RIT interest funds, the executive and the LFA have different interpretations of House Bill 922. Section 1 of House Bill 922 appropriates the "balance" of RIT interest fund to DNRC. The balance is calculated by taking the available revenue and subtracting the amount allocated to other funds and appropriated to other departments. Section 4 of House Bill 922 appropriates 5 percent of the funds appropriated to DNRC to the environmental contingency account. The executive's proposal suggests that the "balance" is $9,772,562, which includes $3,612,778 allocated to the Water Development Fund by Section 75-1-1101, MCA. Based upon legal advice from the Legislative Council, the LFA does not include the $3,612,778 as part of the balance and has calculated a balance of $6,162,784 appropriated to DNRC. Therefore, the calculation of 5 percent for the environmental contingency account will vary depending upon which interpretation the legislature uses. Table 1 shows the legislative staff and the executive's interpretation of the proposal. If the legislature uses the legislative staff interpretation, the Governor's proposal to transfer $300,000 to replace general fund would require reducing the percentage from five to near zero.

Table 1
Resource Indemnity Trust (RIT) Interest Earnings/Distribution

	LFA	Executive
Total Funds Available - LFA Estimate	$14,218,664	$14,218,664
Appropriations and Allocations		
HB 500, 952 and 6% Haz. Waste	4,443,102	4,443,102
Water Development Fund	3,612,778	-0-
Total Non-DNRC Appropriation	$ 8,055,880	$ 4,443,102
Balance Appropriated to DNRC	$ 6,162,784	$ 9,775,562
5 Percent of Balance for Contingency Fund	$ 308,139	$ 488,728

The third part of the executive proposal is to redirect $125,000 of water development funds appropriated to DNRC for emergency grants. Section 10 of House Bill 947, which makes the $125,000 appropriation, stipulates that if the appropriation is not needed for emergency grants, DNRC could use the funds to finance grants listed in Section 1 of the bill. If there are no emergencies requiring these funds, the net effect of the executive recommendation is to reduce the amount available for grants in Section 1 by $125,000. Issue 1 of the LFA Budget Analysis includes an updated revenue and expenditures table (table 1) of the Water Development Account. Also in that issue is table 2, which details the prioritized grants from House Bill 947. If the $125,000 were transferred to the general fund or had been used for an emergency grant, the amount available for grants would be reduced. This part of the executive's proposal only reduces water development funds for grants.

The fourth part of the executive proposal is to reduce the amount of water development funds available for grants by $100,000. This part of the executive proposal, combined with part three, reduces the amount available for grants by $225,000.

The four parts of this proposal combine for a net transfer of $725,000 to the general fund ($500,000 of RIT interest and $225,000 of Water Development funds).

ISSUE GOV. 3: DELAY ALTERNATIVE ENERGY LOANS AND GRANTS

Table 2 details the current status of the Alternative Energy Research Development and Demonstration Account in funding the Renewable Energy and Conservation Program. Of the balance available for grants and loans, the executive has recommended that $1,143,000 be reallocated to the general fund. The executive has recommended that the remaining balance be used to retrofit at least eight state buildings.

The Alternative Energy Research Development and Demonstration Account receives a percentage of the Coal Trust Funds. The account's funds are used to finance grants and loans for energy conservation projects.

Table 2
Renewable Energy and Conservation Program - 1987 Biennium Budget

Balance Available July 1, 1985		$1,278,694*
Revenue estimate for Fiscal 1986 and 1987		
Coal Tax	$1,968,728	
Loan Repayments	445,000	
Total Revenue		$2,413,728
Total Funds Available		$3,692,422
Operating Expenses		
Administration	$ 597,240	
Energy Audit Contract	28,000	
Match for Federal Grants	270,686	
Total Operating Expenses		$ 895,926
Grants Awarded to 12/31/85		
State Building	$ 207,098	
Renewable Energy & Conservation Grants	62,053	
Total Grants Awarded		$ 269,151
Balance Available for Grants and Loans		$2,527,345

*The balance does not include the $2,000,000 appropriated to science and technology.

DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	266.9	268.50	257.29	257.79	(10.71)
Personal Service	$ 5,808,159	$ 6,093,884	$ 6,469,344	$ 6,586,357	8.1
Operating Expense	3,032,862	3,011,948	7,022,564	4,776,858	58.6
Equipment	140,580	209,674	120,896	51,497	(75.4)
Total Operating Costs	$ 8,981,601	$ 9,315,506	$13,612,804	$11,414,712	22.5
Non-Operating Costs	5,225,535	6,805,415	22,969,550	1,627,952	(76.1)
Total Expenditures	$14,207,136	$16,120,921	$36,582,354	$13,042,664	(19.1)
Fund Source					
General Fund	$ 4,318,642	$ 3,576,219	$ 4,538,913	$ 5,759,413	61.0
State Special Fund	7,623,779	9,550,690	24,694,432	6,075,084	(36.4)
Federal Revenue	1,448,525	1,149,360	7,349,009	1,208,167	5.1
Proprietary Funds	13,204	-0-	-0-	-0-	---
Other Approp. Funds	802,986	1,844,652	-0-	-0-	(100.0)
Total Funds	$14,207,136	$16,120,921	$36,582,354	$13,042,664	(19.1)

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. Replace General Fund in Water Engineering Bureau		
Option A.	$(353,090)	$353,090
Option B.	$(353,090)	$353,090
2. Monitoring Energy Supplies and Demand	$(27,143)	-0-
3. Major Facility Siting Bureau Funding	$(173,000)	$173,000

The Department of Natural Resources and Conservation is responsible for maintenance and enhancement of Montana's land, water, and energy resources. The Conservation Districts Division provides leadership and financial assistance to the state's 59 conservation districts. The Oil and Gas Division regulates the exploration for and production of oil and gas. The Water Resources Division administers the state's Water Development Program, state owned water projects, and water rights recording. The

Energy Division operates the Alternative Energy Program and administers the Facility Siting Program.

The change in positions from fiscal 1985 to fiscal 1987 results from the addition of 4 FTE to administer the Resource Indemnity Trust Grant Program and the loss of 14.71 FTE added by budget amendment in fiscal 1985. The other major change is the appropriation of $1.0 million per year of anticipated facility siting revenues in the Energy Division. The reduction in non-operating costs is because fiscal 1985 includes grant expenditures, while in the 1987 biennium the grants are appropriated for the biennium and listed in fiscal 1986. In practice however, some 1987 biennium grants will carry over in to fiscal 1987. General fund increases 61.0 percent, primarily due to the replacement of resource indemnity trust interest with general fund to fund the operating expenses of the department.

ISSUE 1: REPLACE GENERAL FUND IN THE WATER ENGINEERING BUREAU

The legislature appropriated $848,068 in fiscal 1987 for the operations of the Engineering Bureau in the Water Resources Division. Of this total, $353,090, or 41.6 percent, is general fund.

The Engineering Bureau is composed of three sections: (1) The Project Rehabilitation Section, which is responsible for the rehabilitation of state-owned water development projects; (2) the Floodplain Management Section, which administers the Montana Floodplain and Floodway Management Act and coordinates the National Flood Insurance Program; and (3) the Project Section, which administers state-owned water conservation projects and provides for engineering and related technical assistance to the state water users' associations and to other programs within DNRC and other agencies. The basic responsibility of the bureau's sections is administering the state's water development program.

The responsibilities and functions of the bureau appear to fit the criteria established in section 85-1-604, MCA, for financing by the water development state special

revenue account. Subparagraph (vii) of that section states that one of the purposes for which the water development state special revenue account can be used is "administrative expenses, including but not limited to the salaries and expenses of personnel, equipment, office space, and other necessities incurred in the administration of the water development program...". The legislature may want to use water development state special revenues to fund the Water Engineering Bureau instead of the $353,090 general fund currently allocated. The use of water development funds to replace general fund would reduce the amount available for grants.

When the budget for the 1987 biennium was developed, $2,592,275 was estimated to be available for water development grants. Table 1 shows the original estimate and the revised estimate as of May 7, 1986. The revised amount available for grants is $230,276 lower than the original estimate.

Table 1
Water Development Account
1987 Biennium

	- - Original Estimate - -		- - Revised Estimate - -	
Beginning Balance July 1, 1985		$ 663,100		$ 613,364
Revenues				
30 Percent RIT Int. Earnings	$3,894,750		$3,612,779	
Coal Tax Renewable Res. Dev.	378,478		442,585	
Coal Tax Water Development	1,217,098		1,143,364	
Less Debt Service on WD Bond	(978,525)		(711,532)	
Loan Repayments	574,534		332,509	
Project Revenues	422,210		500,000	
Interest on Bond Proceeds	192,000		200,000	
Total Revenues		$ 5,700,545		$5,519,705
Funds Available		$ 6,363,645		$6,133,069
Expenditures				
Water Courts	$1,129,494		$1,129,494	
DNRC Centralized Services Division	220,013		220,013	
Water Resources Division Operations	1,621,863		1,621,863	
State Water Projects	800,000		800,000	
Total Expenditures		$(3,771,370)		$(3,771,370)
Funds Available for Water Development Grants		$ 2,592,275		$ 2,361,999

House Bill 947 contains a prioritized list of projects authorized by the legislature for the 1987 biennium. Table 2 lists the first 38 grants, totaling $2,551,600, as they were prioritized in House Bill 947.

Table 2
Water Development Projects - 1987 Biennium

Project	1987 Biennium Appropriation	Accumulative Total
1. Swan River Youth Camp Sewage Treat. Plant	$444,100	$444,100
2. Montana State Prison, Sewer Expansion	68,500	512,600
3. MT Bureau of Mines & Geology, Groundwater Info.	100,000	612,600
4. Triangle Conserv. Dist., Saline Seep	100,000	712,600
5. Carbon Conserv. Dist., Willow Stream	68,000	780,600
6. UM - Forest & Experiment Station	85,000	865,600
7. Rosebud Conserv. Dist., Veg. Streambank Stabil.	5,500	871,100
8. Teton County Conserv. Dist., Aquifier Study	100,000	988,100
9. Ekalaka, Water & Sewer Planning	17,000	988,100
10. Lewis & Clark/Jefferson Valley Conserv. Dist.	100,000	1,088,100
11. Cut Bank North Glacier Water & Sewer Dist.	50,000	1,135,100
12. Seeley Lake Missoula Co. Water Dist.	9,000	1,147,100
13. U OF M Missoula Aquifier Study	100,000	1,247,100
14. Stillwater Cons. Dist. & Beartooth RC&D	80,000	1,327,100
15. Greenfields Irrigation Dist. New	17,000	1,344,100
16. Greenfields Irrigation Dist. Old	54,000	1,398,100
17. Carbon Conserv. District	19,000	1,417,100
18. Antelope Water/Sewer District	60,000	1,477,100
19. Daniels County Conserv. District.	90,000	1,567,100
20. Town of Cascade/Landfill Rehab.	44,000	1,611,100
21. Sheridan County Water Study	75,000	1,686,100
22. Treasure County Conserv. District	17,000	1,703,100
23. Town of Saco	41,800	1,744,900
24. Private Water Users Weed & Moss Catcher	20,000	1,764,900
25. Box Elder Rural Improvement District	28,000	1,792,900
26. Sheridan County Reserve Sewer District	33,000	1,825,900
27. Pipestone Ditch Co.	6,000	1,831,900
28. MT FW&P Gartside Dam Repair	100,000	1,931,900
29. Butte/Silver Bow	82,000	2,013,900
30. Deer Lodge Valley Conserv. District	15,000	2,028,900
31. Private Water System Assist Cor.	16,700	2,045,600
32. MT FW&P McNeil Slough Dam Restoration	56,000	2,101,600
33. MT Bureau of M&G Madison Valley Arsenic Study	44,000	2,145,600
34. Private Water Users Assoc. Ditch Rehab.	33,000	2,178,600
35. MSU Groundwater Exploration, of Bozeman Fan.	85,000	2,263,600
36. Whitefish Water & Sewer District	100,000	2,363,600
37. Meagher County Newlan Creek Dam	100,000	2,463,600
38. Private Rural Water Corporation	88,000	2,551,600

The revised estimated revenues available for water development grants in the 1987 biennium is $2,361,999. Using the revised amount the first 35 projects could be funded. If the legislature redirects $353,090 for the administration expenses of the Engineering Bureau, $2,008,909 would be available for grants, which would be sufficient to finance the first 28 projects.

Administration Charge

The department is currently investigating what water development administrative charges could be financed by the water users, and is trying to determine a ratio of water user costs versus general public benefits. The department has proposed a list of items that could be charged to water users. Using that list, approximately $68,000 of administrative costs would be charged to the water users. The department's interpretation of administrative charges that could be billed to water users is very narrow. A broader look at the relationship between agency activities and water projects may yield a larger amount that should be charged to the users.

If the department or the legislature does establish a formula to charge water users a portion of the administrative costs, fees from water users could be used to replace general funds. At least $68,000 of general fund could be replaced.

Option A: Replace $353,090 of general fund with water development funds.

Option B: Replace $68,000 of general fund with water users fees and $285,090 general fund with water development funds.

ISSUE 2: MONITORING ENERGY SUPPLIES AND DEMAND

In 1979 the legislature enacted the Energy Supply Emergency Powers Act with three specific legislative intents: (1) establish necessary planning, information gathering, and energy emergency powers for the Governor and define the conditions under which such powers are to be exercised; (2) provide for the regular monitoring of energy supplies and demand; and (3) provide penalties for violation of the act. The act did not authorize the establishment of an independent

state energy forecasting program.

In presenting it's 1987 biennium budget to the Natural Resources Appropriations Subcommittee, the Department of Natural Resources and Conservation identified one of the responsibilities of the Planning and Analysis Bureau of the Energy Division as "collecting and analyzing data on the supply, distribution, and the use of petroleum fuels in Montana".

When the legislature enacted the emergency powers act in 1979 there was considerable anxiety over future supplies of petroleum products. Since enactment, the department has regularly monitored energy supplies and demand. However, not once since 1979 has the Governor had to invoke the emergency powers.

There also may exist duplicate services in the monitoring of motor fuel consumption. Both the Departments of Revenue and Highways monitor the use of motor fuel in Montana. They do not monitor the supply, but, as mentioned in the above paragraph, supply has not been a problem in Montana for a number of years.

The department has one position budgeted in fiscal 1986 to administer the emergency powers act. Table 3 details the estimated costs associated with the administration of the act.

Table 3
Costs of Administering the Emergency Powers Act
(Estimated Appropriation for Fiscal 1987)

Personal Services	$25,643
Operating Expenses	1,500
Total Costs and General Fund	$27,143

Option A: Eliminate the funding for the administration of the Energy Supply Emergency Powers Act for a general fund savings of $27,143.

ISSUE 3: MAJOR FACILITY SITING BUREAU FUNDING

Within DNRC's Energy Division is the Major Facility Siting Bureau, which is responsible for administering two statutes: The Montana Major Facility Siting Act and the Montana Environmental Policy Act.

The Montana Major Facility Siting Act was enacted by the legislature in 1973, and requires that before a power or energy conversion facility can be constructed or begin operations, it must first receive a certificate of environmental compatibility and public need. With the exception of reviewing and evaluating the potential implications to the air and water, which are responsibilities of the Department of Health and Environmental Sciences, DNRC is responsible for all aspects of administering and enforcing the provisions of the act. The Facility Siting Bureau does the assessment of the project's environmental compatibility. To finance the bureau's costs of administering the facility siting act, the legislature authorized the department to collect a "filing fee". Section 75-20-215, MCA, which created the filing fee, states: "A filing fee shall be deposited in the state special revenue fund for the use of the department (DNRC) in administering this chapter." The section goes on to detail the maximum fees which the department can charge in administering the act.

The Facility Siting Bureau is also responsible for gathering data and information necessary to compile an environmental impact statement as required in Section 75-1-202, MCA, of the Montana Environmental Policy Act. That act requires that:

> Each agency of state government charged with the responsibility of issuing a lease, permit, contract, license, or certificate under any provision of state law may adopt rules prescribing fees which shall be paid by a person, corporation, partnership, firm, association, or other private entity when an application for a lease, permit, contract, license, or certificate will require an agency to compile an environmental impact statement... The fee assessed under this part shall be used only to gather data and information necessary to compile an environmental impact statement...

To meet the responsibilities for the facility siting act and environmental impact statements, the Facility Siting Bureau has five permanent positions and, depending upon the workload, temporary positions as needed. To ensure that the five perma-

nent positions are not put at risk by fluctuating revenues (filing fees), the legislature has appropriated general fund to finance the positions. The temporary positions are financed entirely by project filing fees and are filled only when workload demands.

The main functions of the five permanent positions are to administer and enforce the provisions of the facility siting act and the responsibilities identified in the environmental policy act. Therefore, when one of the permanent positions works on a specific project under one of these acts, their costs are to be billed to that project. The permanent staff also provides administration, rule drafting and updating, and centerline analyses. The first two items are related to the facility siting act and the last item to the environmental policy act. Because these functions are not associated with any one specific project, the department has not tried to recover associated costs with filing fees. However, the statutes are very specific that "a filing fee shall be deposited in the state special revenue fund for the use of the department in administering this chapter." and that "The revenues derived from filing fees shall be used by the department in compiling the information required for rendering a decision on a certificate and for carrying out its and the board's other responsibilities under this chapter (emphasis added)." Rule drafting and centerline analysis are responsibilities of the department under the facility siting law and therefore may be funded with fee revenues.

The department has argued that the five positions in facility siting need to be funded with general fund as a safety net in the event there are no projects to charge their costs against at a particular moment. In reviewing the past two fiscal years and the first ten months of fiscal 1986, it appears that there has been regular income from fees, but very few projects to which the permanent positions' time has been charged. Table 4 details for fiscal 1984, 1985, and the first ten months of fiscal 1986 the bureau's expenditures and the funding sources to which the expenditures have been charged. In each fiscal year, the general fund has financed a larger portion of

bureau costs than have the siting fees. If the concept that the general fund was only appropriated as a safety net were valid, general fund expenditures should be very minimal, with most of the costs financed with siting fees. The failure to revert general fund provided for the core staff in the presence of substantial fee revenue raises the question of whether the state should maintain a core staff.

Table 4
Facility Siting Bureau Financing

Funding Source	Fiscal 1984	Fiscal 1985	FY86 (4/30-86)
General Fund	$230,309	$203,460	$149,144
Siting Fees	226,016	176,022	114,127
Other Funds	15,881	13,658	12,204
Total Expended	$472,206	$393,140	$275,475
Percent General Fund	48.8	51.8	53.0
Percent Siting Fees	47.9	44.8	40.5

Table 5 is a summary of the revenues and expenditures of siting fees from the beginning of fiscal 1984 until the end of April, 1986. The table indicates that both the revenues and fund balance have been dropping constantly over this two year and ten-month period which indicates that the amount of construction requiring environmental reviews may be dropping.

Table 5
Siting Fee Account History

	Fiscal 1984	Fiscal 1985	FY86 (4/30-86)
Beginning Balance	$186,941	$161,639	$151,256
Revenue	245,307	192,543	38,579
Total Fund Available	$432,248	$354,182	$189,835
Expenses	$259,617	$180,715	$117,508
Prior Year Adjustments	(10,992)	(22,211)	(13,490)
Ending Fund Balance	$161,639	$151,256	$ 85,817

Table 4 indicates that over the last two years and ten months the general fund has been the main funding source of this bureau instead of a "safety net", and table 5 indicates that revenue from siting fees has been dropping. The bureau was originally designed to be self-supporting, but to date has not been. Therefore, does the legislature wish to discontinue general fund support and direct the department to continue the bureau with only siting fees as the fees become available?

Option A: Eliminate general fund funding for the Facility Siting Bureau, reducing general fund expenditures for fiscal 1987 by approximately $173,000.

DEPARTMENT OF AGRICULTURE

Budget Items	House Bill 500	Governor's Budget	Difference
	Fiscal 1987	Fiscal 1987	
FTE	91.07	87.56	3.51
Personal Service	$2,186,228	$2,110,781	$ 75,447
Operating Expense	860,462	821,090	39,372
Equipment	91,130	90,954	176
Total Operating Costs	$3,137,820	$3,022,825	$114,995
Non-Operating Costs	1,290,170	1,265,170	25,000
Total Expenditures	$4,427,990	$4,287,995	$139,995
General Fund	$1,500,327	$1,425,311	$ 75,016
State Special	1,146,695	1,089,360	57,335
Federal Revenue	1,366,346	1,366,346	-0-
Proprietary Funds	261,750	254,106	7,644
Other Approp. Funds	152,872	152,872	-0-
Total Funding	$4,427,990	$4,287,995	$139,995

ISSUES IN GOVERNOR'S BUDGET	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
Gov. 1. 5 Percent Cut		
A. Centralized Services	$(14,263)	$(27,777)
B. Plant Industry	$(23,695)	$(21,856)
C. Agriculture Development	$(3,212)	$(7,132)
D. Environmental Management	$(33,846)	$(8,214)

ISSUE GOV. 1: 5 PERCENT CUT

A. Centralized Services

1. Eliminate 1 FTE in data processing and clerical support. Currently one full-time and two part-time positions are vacant.

2. Reduce operating expenses for weed coordinator.

B. Plant Industry

1. Eliminate one vacant position in one of the district offices. This will

reduce the department field services in the areas of horticulture, apiculture, itinerant merchants, seed sampling, and warehousing.

C. Agriculture Development

1. Reduce the crop and livestock operating budget.

D. Environmental Management

1. Eliminate six seasonal biological aides.

2. The Integrated Pest Management Program will be eliminated. This program was designed to find natural remedies to pest problems. In addition, grasshopper surveillance and other insect surveys will be reduced.

DEPARTMENT OF AGRICULTURE

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	97.77	97.34	91.07	91.07	(6.27)
Personal Service	$2,017,053	$2,051,369	$2,215,050	$2,300,922	12.2
Operating Expense	705,538	767,495	853,871	860,462	12.1
Equipment	114,203	111,973	153,538	91,130	(18.6)
Total Operating Costs	$2,836,794	$2,930,837	$3,222,459	$3,252,514	11.0
Non-Operating Costs	937,993	1,416,321	1,267,599	1,290,170	(8.9)
Total Expenditures	$3,774,787	$4,347,158	$4,490,058	$4,542,684	4.5
Fund Source					
General Fund	$1,514,204	$1,573,681	$1,536,386	$1,571,572	(0.1)
State Special	467,608	412,932	1,123,175	1,166,226	182.4
Federal Revenue	1,494,708	1,577,353	1,418,603	1,378,253	(12.6)
Other Funds	217,875	667,580	262,953	264,864	(60.3)
Proprietary	80,392	115,612	148,941	161,769	39.9
Total Funds	$3,774,787	$4,347,158	$4,490,058	$4,542,684	4.5

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
Added General Fund Revenue		
1. Plant Industries Inspection and Licensing Fees		
Option A.	$ 57,493	-0-
Option B.	114,986	-0-
Option C.	229,972	-0-
Option D.	110,777	-0-
2. Pesticide License & Product Registration Fees		
Option A1.	163,096	-0-
Option A2.	293,643	-0-
Option A3.	326,268	-0-
Option B.	293,256	-0-

The Department of Agriculture consists of four divisions: Centralized Services, Environmental Management, Plant Industry, and Agriculture Development. The department also administers the Hail Insurance Unit and the Wheat Research and Marketing Program. General fund provides 34 percent of the funding for the Department of Agriculture in the 1987 biennium.

ISSUE 1: PLANT INDUSTRIES INSPECTION AND LICENSING FEES

There are a number of inspection and licensing services which are provided by the Plant Industries Division. The fees collected for these services are deposited into the general fund. In reviewing the fees, it was discovered that most of the fee rates have not been changed for five years and some rates haven't been changed since the mid-1930's. Within the Plant Industries Division budget are 13.4 FTE identified as agricultural inspectors or agricultural inspection technicians. The fiscal 1987 personal services budget for those positions is $304,308 before pay plan increases. The operating expenses are approximately $51,000. Therefore, the cost of inspecting and licensing produce is approximately $366,000 per year. As will be shown later, fees produced only $229,971 in fiscal 1985 which is approximately 64 percent of costs. If the legislature increased the fees 60 percent, the fees would cover the costs of licensing and inspecting.

There are 18 fees collected as a result of the activities of the Plant Industries Division. Some of the fee rates are set by statute and some are set by department rule. Table 1 details the name of the fee, the amount of fee collected in fiscal 1985, the current rate of the fee, and the date the fee was last increased.

Table 1
Plant Industry Fees

Name	Fiscal 1985 Revenues	Statute Reference	Last Fee Increase	Current Fee
Produce Inspection	$ 92,818	Rule	1980	$.025 to $20
Flour Inspection	2,436	Contract With Federal Gov't.	1985	$11/Hour
Bean Warehouse Insp.	1,209	Rule	1981	$7/Hr. + $7.50
Phyto Sanitary Insp.	3,364	Rule	1980	$3 - $15
Potato & Cherry Insp.	49,933	Rule	1980	$20 to $45
Produce Tags	197	Rule	1980	3¢/Tag
Public Warehouseman Lic.	15,150	80-4-503	1983	$25 to $150
Commodity Dealers Lic.	29,170	80-4-602	1983	$25 to $150
Agricultural Seed Lic.	9,016	80-5-203	1977	Up to $20
Class A Nursery Lic.	5,495	80-7-102	1979	$30
Class B Nursery Lic.	2,100	80-7-102	1979	$20
Class C Nursery Lic.	2,215	80-7-102	1979	$10
Bee Colony Registration	8,346	80-6-105	1979	$5 to $150
Wholesalers Lic.	4,150	80-3-601	1935	$100
Itinerant Merchant	2,950	80-3-704	1935	$100
Permit of Exemption	18	80-3-701	1935	$100
Apiculture General	933	80-6-202	1979	$20
Certified Potato Reimb.	472	Rule	1980	$3 to $20
Total	$229,971			

Table 2 on the next page itemizes several potential fee increase percentages that the legislature may want to consider. The last column represents the revenue that would be produced if all the fees were raised according to the growth in the Consumer Price Index (1987 est.). The fees which haven't been increased since 1935 would increase 400 percent. Since some of the fees are set in administrative rule, the legislature could either direct the department to raise the fees or put the fees in statute.

Option A: Raise the fees 25 percent increasing general fund revenue by $57,493.

Option B: Raise the fees 50 percent increasing general fund revenue by $114,986.

Option C: Raise the fees 100 percent increasing general fund revenue by $229,972.

Option D: Raise the fees to reflect the growth in the Consumer Price Index increasing general fund revenue by $110,777.

Table 2
Plant Industries Fees
Potential Increases 25%, 50%, 100% CPI

Name	Current Fees	Option A 25% Increase	Option B 50% Increase	Option C 100% Increase	Option D CPI Increase	Percentage Increase For Option D
Produce Inspection	$ 92,818	$116,022	$139,226	$185,635	$128,506	38
Flour Inspection	2,436	3,045	3,654	4,873	2,587	6
Bean Warehouse Insp.	1,209	1,511	1,814	2,418	1,674	38
Phyto Sanitary Insp.	3,364	4,205	5,046	6,728	4,658	38
Potato & Cherry Insp.	49,933	62,416	74,899	99,866	69,132	38
Produce Tags	197	246	296	394	273	38
Public Warehouseman Lic.	15,150	18,938	22,725	30,300	17,348	15
Commodity Dealers Lic.	29,170	36,463	43,755	58,340	33,403	15
Agricultural Seed Lic.	9,016	11,270	13,524	18,033	16,974	38
Class A Nursery Lic.	5,495	6,869	8,243	10,990	8,637	57
Class B Nursery Lic.	2,100	2,625	3,150	4,200	3,301	57
Class C Nursery Lic.	2,215	2,769	3,323	4,430	3,428	57
Bee Colony Registration	8,346	10,432	12,518	16,691	13,117	57
Wholesalers Lic.	4,150	5,188	6,225	8,300	20,750	400
Itinerant Merchant	2,950	3,688	4,425	5,900	14,750	400
Permit of Exemption	18	23	27	36	90	400
Apiculture General	933	1,166	1,399	1,865	1,466	57
Certified Potato Reimb.	472	590	708	944	654	38
Total	$229,971	$287,466	$344,957	$459,943	$340,748	48

ISSUE 2: PESTICIDE LICENSE AND PRODUCT REGISTRATION FEES

The Environmental Management Bureau budget for fiscal 1986 is $1,139,872 of which $710,701 is general fund. The fees from licensing pesticides and pesticide applicators, which are deposited to the general fund, will generate approximately $326,300 in fiscal 1986. The bureau is responsible for administering several acts but the primary responsibility is to administer and enforce the Montana Pesticides Act, Title 80, Chapter 6, Sections 80-8-101 through 80-8-306. The purpose of that Act is defined in section 80-8-103 which states:

> The control of pesticides and their use is essential for the protection of man and his environment. Pesticides are currently considered valuable and necessary to provide sufficient quantity of quality foods and for the protection of humans from vectorborne diseases. However, the protection of man and his essential needs--water, air, food, animals, vegetation, pollinating insects, and shelter from pesticides which are potentially dangerous--is in the public interest now and in the future. Therefore, it is deemed necessary to provide for the control of pesticides.

There are five major components of the bureau which receive general fund. Table 3 details the fiscal 1986 general fund of each of the five components, the percentage of each component's activities related directly to pesticide management, and the resulting portion of each component's budget related to pesticide management. Table 3 indicates a total general fund cost attributable to pesticide management of $605,000. Therefore, the pesticide fees of $326,300 in fiscal 1986 are paying only 54 percent of the cost of administering their use.

Table 3
Environmental Management Bureau's Fiscal 1986 Budget for Pesticide Management

Division Component	Fiscal 1986 Budget	% of Activities Related to Pesticide Management	Amount of Budget Related to Pesticide Management
Environmental Management Administration	$160,530	90	$144,500
Field Support	190,633	100	190,600
Laboratory	105,011	100	105,000
Technical Services	187,802	70	131,500
Rodent Control	66,725	50	33,400
Total	$710,701		$605,000

Currently, the state does charge fees which relate to the cost of administering pesticides in Montana. Table 4 details the pesticide related fees that are currently being collected, the amounts collected for fiscal 1984 and 1985, and projected for fiscal 1986.

Table 4
Pesticide License and Product Registration Fees

Name	Fee	Fiscal 1984 Collections	Fiscal 1985 Collections	Fiscal 1986 Collections
Governmental Dealer License	50.00	$ 1,980	$ 1,950	$ 1,945
Governmental Applicators License	50.00	8,430	9,350	8,405
Private Applicators License	15.00	10,146	17,475	30,683
Pesticide Dealer License	35.00	17,245	16,380	14,660
Pesticide Operator License	10.00	4,450	6,100	4,455
Pesticide Applicator License	35.00	25,780	25,550	21,740
Pesticide Product Registration	50.00	199,435	217,650	244,380
		$267,466	$294,455	$326,268

The pesticide product registration fee is paid by the manufacturer for the legal use of a particular pesticide in Montana. There is only one manufacturer headquartered in Montana and that is Falls Chemical in Billings. They have registered 15 products in Montana. Therefore, of the over 4,000 registered pesticides in Montana only 15 are produced here.

The Pesticide Registration and Licensing Act was enacted in 1971. The pesticide product registration fee (which accounts for 74 percent of the revenues) was $10.00 in 1971. The fee was raised to $15.00 in 1979 and to the present level of $50.00 in 1983. The fees were increased 233 percent in 1983 but fees still only recover 54 percent of the bureau's general fund costs related to pesticide management.

Table 5 presents a number of percentage increase options in the current fee schedule which would provide greater revenues to the general fund. Pesticide fee revenue would have to increase 85 percent to finance the fiscal 1987 Environmental Management Bureau's budget before pay plan increases.

Table 5
Pesticide License Fees at 50, 90, and 100 Percent Increases

Name of Fee	Current Fee	50% Fee Increase	90% Fee Increase	100% Fee Increase
Gov. Dealer License	$50	$75.00	$95.00	$100.00
Gov. Applicators Lic.	50	75.00	95.00	100.00
Private Applicators Lic.	15	22.50	28.50	30.00
Pesticide Dealers Lic.	35	52.50	66.50	70.00
Pesticide Operators Lic.	10	15.00	19.00	20.00
Pesticide Applic. Lic.	35	52.50	66.50	70.00
Pesticide Prod. Lic.	50	75.00	95.00	100.00
Name of Fee	Revenues	Revenues	Revenues	Revenues
Gov. Dealer License	$ 1,945	$ 2,918	$ 3,696	$ 3,890
Gov. Applicators Lic.	8,405	12,608	15,970	16,810
Private Applicators Lic.	30,683	46,025	58,298	61,366
Pesticide Dealers Lic.	14,660	21,950	27,854	29,320
Pesticide Operators Lic.	4,455	6,683	8,465	8,910
Pesticide Applic. Lic.	21,740	32,610	41,306	43,480
Pesticide Prod. Lic.	244,380	366,570	464,322	488,760
Total	$326,268	$489,364	$619,911	$652,536

Option A: Increase pesticide license fees:

1) 50 percent; increasing general fund revenue by $163,096.

2) 90 percent; increasing general fund revenue by $293,643.

3) 100 percent; increasing general fund revenue by $326,268.

Option B: Increase the pesticide product fee only. The state of Montana imports most of the pesticides used in this state and therefore there would be very few Montana businesses financially injured by an increase in the pesticide product fees. If the pesticide product fee was increased from the current level of $50 to $110, the general fund would net an increase of $293,256. This option assumes that all of the pesticide products are reregistered.

DEPARTMENT OF COMMERCE

Budget Items	Fiscal 1987 House Bill 500	Fiscal 1987 Governor's Budget	Difference
FTE	275.10	272.35	2.75
Personal Service	$ 7,417,252	$ 7,278,461	$ 138,791
Operating Expense	6,460,533	5,987,441	473,092
Equipment	52,605	27,070	25,535
Total Operating Costs	$13,930,390	$13,292,972	$ 637,418
Non-Operating Costs	40,423,475	38,204,617	2,218,858
Total Expenditures	$54,353,865	$51,497,589	$2,856,276
General Fund	$ 8,622,410	$ 8,194,799	$ 427,611
State Special	24,233,129	21,985,084	2,248,045
Federal Revenue	17,885,900	17,885,900	-0-
Proprietary	3,612,426	3,431,806	180,620
Total Funding	$54,353,865	$51,497,589	$2,856,276

ISSUES IN GOVERNOR'S BUDGET	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
Gov. 1. 5 Percent Cut		
A. Business Reg. & Lic. Support	$(250)	$(3,505)
B. Weight & Measures	$(21,734)	-0-
C. Milk Control	-0-	$(13,729)
D. Building Codes	-0-	$(57,120)
E. P.O.L.	-0-	$(100,877)
F. Financial Division	-0-	$(37,903)
G. Aeronautics	-0-	$(33,865)
H. Transportation	$(20,980)	$(3,750)
I. Business Assistance	$(35,918)	-0-
J. Montana Promotion	$(62,198)	-0-
K. Local Government Assistance	$(10,106)	$(171,406)
L. Local Government Audit	$(4,387)	$(44,586)
M. Local Government Systems	$(237,000)	$(806,343)
N. Economic Analysis	$(13,799)	-0-
O. Indian Affairs Coordinator	$(5,339)	-0-
P. Health Facilities Coordinator	-0-	$(6,334)
Q. Economic Development Board	$(9,377)	$(9,577)
R. Science and Technology	-0-	$(36,390)
S. Board of Housing	-0-	$(62,699)
T. Director/Management Services	$(87)	$(32,341)
U. Legal	$(6,436)	$(8,240)
Gov. 2. Transfer Coal Board Grant Funds	-0-	$(1,650,000)*

*$650,000 redirected from fiscal 1986

ISSUE GOV. 1: 5 PERCENT CUT

A. Business Regulation and License Support: Reduce contract services, communication, and travel - $3,755.

B. Weights and Measures: Eliminate 1.5 FTE inspector positions. One position is currently vacant - $21,734.

C. Milk Control: General program reductions, largely ($6,482) in travel - $13,729.

D. Building Codes: Reduce travel, personal, and contract services. All funds reduced are state special revenue funds financed by fees charged to building, electrical, and plumbing contractors - $57,120.

E. Professional Occupational Licensing: Eliminate temporary help during peak registration periods; reduce board travel - $100,877.

F. Financial: Eliminate one bank examiner. The division currently has 4.5 positions vacant - $37,903.

G. Aeronautics: Aeronautics Board would hold five meetings instead of six; defer equipment purchases. Appropriated fund reductions are Aeronautics State Special Revenue derived primarily from aviation fuel tax and the West Yellowstone airport proprietary fund - $33,865.

H. Transportation: Reduce funds passed-through to local governments - $3,750; reduce travel - $12,344; reduce contract services - $6,300; other reduction - $2,336.

I. Business Assistance: Reduce the "Made in Montana" promotion; reduce business location advertising 25 percent; discontinue the contract with the 49th Parallel Institute. The Institute is currently studying the impact of freer vs. restricted trade with Canada - $35,918.

J. Montana Promotion: General administrative reductions; reduce trade magazine advertising; reduce the number of publications printed by 50,000; reduce the exhibits and advertising for group travel promotion; reduce from seven to four the number of publicity familiarization tours; reduce consumer sport travel and ski shows from nine to four; reduce summer magazine advertising by four ads - $62,198.

K. Local Government Assistance: Reduce travel and eliminate spring workshop on capital facilities planning; reduce the Coal Board's contract services for the review of grant applications. No reduction is taken from hard rock mining board - $181,512.

L. Local Government Audit: Eliminate 18 audits of medium sized local government units. Local governments units will have to contract with private firms for the audits - $48,973.

M. Local Government Systems: Reduce the amount of coal tax distributed to counties for planning by $40,072; reduce the Local Government Block Grant distribution ($75,000 general fund, $794,150 local block grant funds); reduce district court reimbursements ($157,644 general fund) - $1,043,343.

N. Economic Analysis: The Governor's Council on Economic Development will be able to function the equivalent of one-half year; economic analysis functions related to computer processing will be halted; travel will be reduced - $13,799.

O. Indian Affairs Coordinator: Keep the secretarial positions vacant for the first 3 months of fiscal 1987 - $5,339.

P. Health Facilities Authority: Reduce quality and frequency of the Authority's newsletter; reduce attorney contract which provides help to structure and close loans and bond and note issues; reduce travel - $6,334.

Q. Economic Development Board: Delay hiring a loan officer and reduce travel - $18,954.

R. Science and Technology: Reduce grants. This program is funded with Alternative Energy funds - $36,390.

S. Board of Housing: Reduce the costs associated with mortgage pools. This board is funded with Board of Housing funds - $62,699.

T. Director/Management Services: Eliminate a programmer/analyst position paid from Centralized Services revolving fund; reduce $87 of the County Printing Board's general fund - $32,428.

U. Legal: Reduce operating costs - $14,676.

ISSUE GOV. 2: REDIRECT COAL SEVERANCE TAX TO GENERAL FUND

The executive has proposed that $1,650,000 of Coal Severance Tax originally allocated to the Coal Board for local grants be redirected to the general fund. The $1,650,000 is made up of two parts: 1) $650,000 from fiscal 1986 Coal Board allocation of coal severance tax, and 2) $1,000,000 from fiscal 1987 allocation. Table 1 details the Office of the Legislative Fiscal Analyst's May 27, 1985 estimate of revenue to the Coal Board and the most recent expenditure information from the Coal Board.

Table 1
Coal Board Revenues and Expenditures
1987 Biennium

		Fiscal 1986		Fiscal 1987
Beginning Balance		-0-		$ (73,141)
LFA Projected Revenues		2,525,672		2,199,275
Total Funds Available		$2,525,672		$2,126,134
Disbursements				
Administration, Coal Board	$197,109		$ 185,440	
Grant Commitments	945,567		712,650	
Proposed Gen. Fund Transfer	650,000		1,000,000	
Total Disbursements		1,792,676		1,898,090
Uncommitted Balance		$ 732,996		$ 228,044
Four Grants to be Considered at Coal Board 6/7/86 Meeting		806,137		-0-
Year-end Balance if all Four Grants are Approved		$ (73,141)		$ 228,044

The executive's proposed transfer of coal severance tax revenues to the general fund can be found in the row entitled "Proposed General Fund Transfer." At its June meeting the Coal Board may commit up to an additional $806,137. If the Coal Board does not commit a part or all of the $806,137, the legislature could consider re-directing the funds to the general fund. In addition, the projected year end fund balance of $228,044 could be transferred to the general fund.

DEPARTMENT OF COMMERCE

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	260.63	265.33	276.60	277.10	11.77
Personal Service	$ 6,286,860	$ 6,861,690	$ 7,586,203	$ 7,849,740	14.4
Operating Expense	5,297,680	6,101,347	6,716,000	6,517,533	6.8
Equipment	184,979	187,393	338,794	52,605	(71.9)
Total Operating Costs	$11,769,519	$13,150,430	$14,640,997	$14,419,878	9.7
Non-Operating Costs	35,990,028	38,857,043	48,552,364	41,318,275	6.3
Appropriated Expend.	$47,759,547	$52,007,473	$63,193,361	$55,738,153	7.2
Supplemental Expend.	-0-	-0-	-0-	9,751,272	---
Total Expenditures	$47,759,547	$52,007,473	$63,193,361	$65,489,425	25.9
Fund Source					
Appropriated Gen. Fund	$ 9,479,624	$ 6,779,551	$10,076,627	$ 8,720,097	28.6
Supplemental Gen. Fund	-0-	-0-	-0-	9,751,272	---
State Special	26,959,074	28,730,281	26,581,119	25,398,955	(11.6)
Federal Revenue	9,151,281	10,319,865	22,885,284	17,901,038	73.5
Proprietary	2,169,568	3,668,109	3,650,331	3,718,063	1.4
Other Funds	-0-	2,509,667	-0-	-0-	---
Total Funds	$47,759,547	$52,007,473	$63,193,361	$65,489,425	25.9

SUPPLEMENTAL - Fiscal 1987	General Fund	Other Funds
6. Local Government Block Grant		
Program Reductions		
Option A: Fund program deficit with vehicle fees	$(9,751,272)	$9,751,272
Option B: Fund program deficit and replace general fund with vehicle fees	$(11,251,272)	$11,251,272
Increase General Fund Revenue		
Option C: Fund program deficit, replace general fund, and replace oil severance tax with vehicle fees	$8,477,144	$18,228,386
Option D: Return program to property tax funding	$5,623,194	-0-

ISSUES - Fiscal 1987	General Fund	Other Funds
Increases in General Fund Revenues		
1. Weights & Measures Bureau Revenues		
Option A: Increase license fees 50 percent	$104,317	-0-
Option B: Increase license fees 70 percent	$146,042	-0-
Option C: Increase license fees 100 percent	$208,632	-0-
Option D: Increase license fees 125 percent	$260,791	-0-

ISSUES - Continued	Fiscal 1987	
Program Reductions		
2. Weights & Measures Bureau Expenditures		
Option A: Reduce inspections to every other year	$(147,528)	
Option B: Inspect on complaint only	$(243,623)	
3. Coal Board		
Option A: Redirect 1987 allocation to General Fund	-0-	$(2,199,275)
Option B: Option A less $712,650 committed to grants	-0-	$(1,295,556)
4. Montana Promotion Division		
Option A: Eliminate program	$(1,243,964)	-0-
Option B: Eliminate all but response to requests	$(961,491)	-0-
5. Business Assistance Division		
Option A: Eliminate program	$(730,858)	-0-
Option B: Eliminate all but Business Dev. Assist.	$(582,312)	-0-
7. Science and Technology Program		
Option A: Discontinue program in fiscal 1987	-0-	$(800,000)
Option B: Discontinue grants in fiscal 1987	-0-	$(660,000)

Supplemental Expenditure

The funding for the Local Block Grant Program is estimated to be $9,751,272 short for fiscal 1987. For detailed information about the shortfall please refer to Issue 6.

The Department of Commerce encompasses regulatory programs, programs of local assistance, and programs designed to promote economic growth and development. Regulatory programs include Weights and Measures, Milk Control, Financial, Aeronautics, Building Codes, and Professional and Occupational Licensing. Programs of local assistance are Community Development, Hard Rock Impact, Coal Board, Local Government Block Grant, Indian Affairs Coordinator, Accounting and Management Systems, and Local Government Audit. Programs promoting economic development are Business Assistance, Bonding Authority, Montana Promotion, Transportation, Housing, and Economic Policy and Research.

Major changes in the fiscal 1987 budget compared with fiscal 1985 expenditures include: 1) appropriation of $3,152,877 of general fund for district court grants; 2) appropriation of $1,100,000 (alternative energy funds) and 2 FTE for science and technology grants; 3) an increase in the registration fee on light vehicles from $1.50

to $7.50, which raised an additional $2.21 million of restricted revenues for local government block grants; 4) a reduction in the Coal Board allocation of coal severance tax revenues by $5.0 million; 5) the addition of two bank examiners; 6) the addition of two positions and $2,734,586 (biennium amount) of federal funds for a federal program to rehabilitate low income housing; and 7) the addition of four positions in the Bonding Authority Program.

ISSUE 1: WEIGHTS AND MEASURES BUREAU REVENUES

The legislature appropriated $465,712 of general fund in fiscal 1986 for the operations of the Department of Commerce Weights and Measures Bureau. The bureau, through the licensing of weighing scales and petroleum devices, earns revenue for the general fund. It is estimated the bureau will earn approximately $208,600 for the general fund in fiscal 1986. The difference between the licensing revenues of $208,600 and the bureau's general fund appropriation of $465,712 is $257,112. Therefore, the license fees are financing only 44.8 percent of the cost of the bureau.

Current Situation

The licensing and enforcement function of weights and measures is currently being managed by the Bureau of Weights and Measures which is located within the Department of Commerce. The bureau has 12 FTE to carry out its licensing and enforcing responsibilities. Table 1 lists the FTE and their location in Montana.

Table 1
Bureau of Weights and Measures FTE

Number of Positions	Title	Location
1	Regulatory Program Manager	Helena
1	Assistant Administrator	Helena
1	Metrologist	Helena
1	Equipment & Instrument Repairman	Helena
1	Inspector	Helena
1	Inspector	Great Falls
1	Inspector	Missoula
2	Inspector (1 propane inspector)	Billings
1	Inspector	Havre
1	Inspector	Glendive
1	Secretary	Helena

The budget for the bureau, as appropriated for fiscal 1986, is detailed in table 2.

Table 2
Bureau of Weights and Measures Fiscal 1986 Budget

	- - Fiscal 1986 Budget - -	
Personal Expenses		
Salaries	$252,156	
Benefits	55,193	
Subtotal Personal Expenses		$307,349
Operating Expenses		
Contracted Services	13,800	
Supplies and Materials	27,170	
Communications	7,591	
Travel	30,743	
Rent	9,519	
Utilities	1,570	
Repairs and Maintenance	14,000	
Other Expenses	29,212	
Subtotal Operating Expenses		133,605
Equipment		24,758
Total Appropriation		$465,712
Funding Source		
General Fund		$465,712

The program goals of the bureau, as presented to the Natural Resources Appropriation Subcommittee during the 49th Legislative Session, are as follows:

> The Weights and Measures Bureau is responsible for licensing, inspecting and testing all weighing and measuring devices and the calibration of all weights and measures; also enforce laws and regulations relating to quantity control of prepackaged products.

Within statute there are five major responsibilities of the division:

1. Section 30-12-203 Licensing of weighing devices: Each year persons who own a weighing device must license that weighing device with the Department of Commerce. This section also states that the weighing device should be inspected at least once a year.

2. Section 30-12-205(2) General testing: The department, within a 12-month period or less frequently if in accordance with a schedule issued by it, and as often as it considers necessary, shall inspect and test, to ascertain if they are correct, all weights and measures commercially used.

3. Section 30-12-207 Inspection of packages: The department shall from time to time weigh or measure and inspect packages of amounts of commodities kept, offered, or exposed for sale, sold, or in the process of delivery to determine whether they contain the amounts represented and whether they be kept, offered, or exposed for sale or sold in accordance with law.

4. Section 82-15-105 Licenses and fees: All petroleum dealers or liquefied petroleum dealers must license their petroleum measuring devices annually with the department.

5. Section 82-15-107 through 109: The department must approve, calibrate, and seal all metering devices through which petroleum products are measured.

The bureau has seven field inspectors and one metrologist placed in six locations around the state. These inspectors attempt to visit every licensed weighing device and petroleum metering device once a year to make sure that the device is weighing and or measuring accurately. The field inspectors also check the device's license to ensure that it is current and the right license for that type of device.

The bureau also provides the public with an impartial appraisal of whether or not the items they are purchasing contain the contents and the weight as stated on the label. Because of staff size, the bureau has only been checking on the content

of packaged items on a complaint basis. If a consumer feels that an item they purchased is less than what the label states and they petition the bureau to investigate, the bureau will sample the item. Therefore, the majority of a field inspector's day is spent inspecting devices and checking for valid licenses.

The assistant administrator records and files all license applications. The license for a weighing or measuring device is set in statute by the maximum weight (for weighing devices) and volume (for measuring devices) the device can measure. Table 3 on the following page contains the current schedule of licensing fees and the fee schedule prior to 1983, when the legislature last updated the fees. The change in fees in 1983 was the first since the fees were established in 1973.

Table 3
Weighing and Measurement License Fees

Weighing Devices (Capacity)	1973-1983	1983-1986
1. 499 lbs. or less	$ 2.50	$ 5.00
2. 500 lbs. to 1,999 lbs.	4.00	8.00
3. 2,000 lbs. to 7,999 lbs.	10.00	15.00
4. 8,000 lbs. to 40,000 lbs.	20.00	
5. 8,000 lbs. to 60,000 lbs.		40.00
6. 40,001 lbs. or more	35.00	
7. 60,001 lbs. or more		70.00
PETROLEUM METERING DEVICES		
1. Each gasoline pump, diesel pump, or fuel oil pump measuring device	$ 3.00	$ 5.00
2. Each petroleum vehicle tank meter or bulk petroleum meter of 2 inches and under	10.00	15.00
3. Each bulk petroleum meter over 2 inches	15.00	20.00
4. Each liquified petroleum meter	15.00	25.00
5. Each vapor meter	3.00	3.00
6. Each petroleum and liquified petroleum vehicle tank up to and including 2,000 gallons	20.00	20.00
7. Each petroleum and liquified petroleum tank over 2,000 gallons	$20.00 plus $4.00 for each additional 1,000 gallons	$20.00 plus $4.00 for each additional 1,000 gallons

Table 4 contains fiscal 1984 and 1985 revenues by fee category for both weighing and measuring devices. Dividing the current fees into the revenue produced by each fee establishes the number of weighing and measuring devices in each fee category. Column 4 of table 4 contains the number of scales and petroleum measuring devices licensed in Montana in fiscal 1985.

Table 4
Fiscal 1984 and 1985 Fee Revenues and Fiscal 1985 Devices Licensed

	----License Fee Income-----		Number of Devices Licensed
Weighing Devices	Fiscal 1984	Fiscal 1985	Fiscal 1985
0-499 lbs.	$ 23,312	$ 22,270	4,454
500-1,999 lbs.	9,131	8,512	1,064
2,000-7,999 lbs.	5,176	4,515	301
8,000-60,000 lbs.	51,205	59,240	1,481
60,001 lbs. and over	43,890	36,470	521
Total	$132,714	$131,007	
PETROLEUM MEASURING DEVICES			
Petro pump	$ 40,039	$ 41,100	8,220
Petro meters 2" and less	20,155	19,125	1,275
Petro meters 2" and more	3,160	3,440	172
Vapor meter	516	4,700	188
L.P.G. meter	10,675	8,820	441
Petro tank lic.	450	440	22
Total	$ 74,995	$ 77,625	
Total Weighing Devices	132,714	131,007	
Total License Fee Income	$207,709	$208,632	

The activities of the bureau are almost 100 percent related to licensing and enforcement of measuring device accuracy. There is very little effort put into the checking of packages to ensure correct contents and weight.

As stated in the first paragraph, the revenue generated from license fees is only 44.8 percent of the costs of licensing and regulating weighing and measuring devices. Table 5 on the following page details possible percentage increases in the licensing

fees to make this function more self supporting. An increase of 125 percent (Option A) would be needed to totally replace general fund.

Table 5
Options for License Fee Increases

Weighing Devices	Devices Licensed	Current Fees	50% Fee Increase	70% Fee Increase	100% Fee Increase	125% Fee Increase
0-499 Lbs.	4,454	$ 5.00	$ 7.50	$ 8.50	$ 10.00	$ 11.25
500-1,999 Lbs.	1,064	8.00	12.00	13.60	16.00	18.00
2,000-7,900 Lbs.	301	15.00	22.50	25.50	30.00	33.75
8,000-60,000 Lbs.	1,481	40.00	60.00	68.00	80.00	90.00
60,001 Lbs. and Over	521	70.00	105.00	119.00	140.00	157.50
Petroleum Measuring Devices						
Petro Pumps	8,220	$ 5.00	$ 7.50	$ 8.50	$ 10.00	$ 11.25
Petro Meter 2" and L	1,275	15.00	22.50	25.50	30.00	33.75
Petro Meter 2" and M	172	20.00	30.00	34.00	40.00	45.00
Vapor Meter	188	25.00	37.50	42.50	50.00	56.25
LPG Meter	441	20.00	30.00	34.00	40.00	45.00
Petro Tank License	22	20.00	30.00	34.00	40.00	45.00
		- - - - - - - - - - - - - - - Revenue - - - - - - - - - - - - - - -				
Weighing Devices						
0-499 Lbs.		$ 22,270	$ 33,405	$ 37,859	$ 44,540	$ 50,108
500-1,999 Lbs.		8,512	12,768	14,470	17,024	19,152
2,000-7,900 Lbs.		4,515	6,773	7,675	9,030	10,159
8,000-60,000 Lbs.		59,240	88,860	100,708	118,480	133,290
60,001 Lbs. and Over		36,470	54,705	61,999	72,940	82,058
Petroleum Measuring Devices						
Petro Pumps		$ 41,100	$ 61,650	$ 69,870	$ 82,200	$ 92,475
Petro Meter 2" and L		19,125	28,688	32,513	38,250	43,031
Petro Meter 2" and M		3,440	5,160	5,848	6,880	7,740
Vapor Meter		4,700	7,050	7,990	9,400	10,575
LPG Meter		8,820	13,230	14,994	17,640	19,845
Petro Tank License		440	660	748	880	990
Total		$208,632	$312,949	$354,674	$417,264	$469,423

Option A: Increase the licensing fees by 50 percent to increase the general fund by $104,317.

Option B: Increase the licensing fees by 70 percent to increase the general fund by $146,042.

Option C: Increase the licensing fees by 100 percent to increase the general fund by $208,632.

Option D: Increase the licensing fees by 125 percent to increase the general fund by $260,791, fully recapturing the cost of the program.

ISSUE 2: WEIGHTS AND MEASURES BUREAU EXPENDITURES

The functions and responsibilities of the bureau are detailed in Issue 1. The legislature could consider two possible reductions in the frequency of inspecting weighing and measuring devices, reducing staffing needs and general fund costs.

The bureau currently has 12 appropriated FTE, of which seven are inspectors out in the field. The metrologist FTE also spends a portion of his time out in the field inspecting devices. The inspectors attempt to visit and inspect every device on a once a year schedule. The fiscal 1986 budget for the bureau is detailed in table 2.

In calendar year 1985 the bureau tested 7,237 weighing devices, of which 365 were rejected, for a compliance rate of 95 percent. In the same time period the bureau tested 7,729 measuring devices, of which 222 were rejected for a compliance rate of 97 percent.

According to an official of the National Bureau of Weights and Standards, all states attempt to inspect each licensed measuring device on an annual basis, but in reality some inspect on a biennial basis and some less frequently. No state inspects on a complaint only basis.

If the Legislature were to direct the bureau to attempt to inspect devices once every two years, the number of inspectors could be reduced by four. This leaves three full-time inspectors and the metrologist to inspect the devices. The repair and maintenance person could be trained to do some inspections when not repairing equipment. Table 6 details the proposed savings of reducing four inspector positions.

Table 6
Reduction of 4 Inspectors

	Cost of 7 Inspectors	Reduction of 4 Inspectors	Amount Needed to Retain 3 Inspectors
Personal Services	$160,237	$ (91,564)	$ 68,673
Operating Expenses	77,936	(44,535)	33,401
Equipment	20,000	(11,429)	8,571
Total	$258,173	$(147,528)	$110,645

The legislature may also wish to consider inspecting devices on a complaint basis only. The bureau currently is receiving one consumer complaint per week. If the bureau were to only inspect those devices on which complaints were filed, the inspector staff could be reduced to one and the repair and maintenance position could be eliminated for a reduction of seven funded positions. One inspector and the metrologist would remain and be located in different areas of the state to inspect devices as complaints arise. Table 7 details the proposed savings by reducing six inspector positions and one repair and maintenance position.

Table 7
Reduction of 6 Inspector and 1 Repair and Maintenance Positions

	Cost of 7 inspectors and 1 rpr and main	Reduction of 6 inspectors and 1 rpr and main	Amount Needed to Maintain 1 Inspector
Personal Services	$180,461	$(157,570)	$22,891
Operating Expenses	89,070	(66,803)	22,267
Equipment	22,000	(19,250)	2,750
Total	$291,531	$(243,623)	$47,908

Option A: Reduce the frequency of inspecting weighing and measuring devices from once per year to once every other year reducing four inspector positions, saving the general fund $147,528.

Option B: Eliminate scheduled inspections of weighing and measuring devices and inspect on a complaint basis only. Six inspector positions and one repair and maintenance position could be eliminated. The potential general fund savings would be $243,623.

ISSUE 3: COAL BOARD

The issue to consider is: Does a need still exist in the coal producing region of Montana for the state to provide assistance to local governmental units for expanded public services?

In 1975, the Montana legislature enacted Title 90, chapter 6, part 2, entitled Coal Impacts - Evaluation and Abatement Funding. Section 201 states the purpose of the Coal Board.

> 90-6-201. Purpose: The purposes of this part are to assist local governmental units which have been required to expand the provisions of public services as a consequence of large-scale development of coal mines and coal-using energy complexes, . . .

The Coal Board is authorized by statute to receive 2.64 percent of the Coal Severance Tax in fiscal 1987. Based on the most recent LFA revenue analysis (dated May 27, 1986) the projected revenue to the Coal Board in fiscal 1987 would be $2,199,275. The legislature appropriated $191,069 for administrative costs of the Coal Board in fiscal 1987, leaving $2,008,206 for grants. The legislature has the option of reducing or eliminating the Coal Board's portion of the coal severance tax and allowing those funds to be redirected to the general fund.

To determine the continuing need for state assistance to local governmental units, this issue analysis looks at two factors relevant to determining that need. First, is the coal mining industry growing, and second, do local units of government in the coal producing regions have the local resources to provide the needed local services?

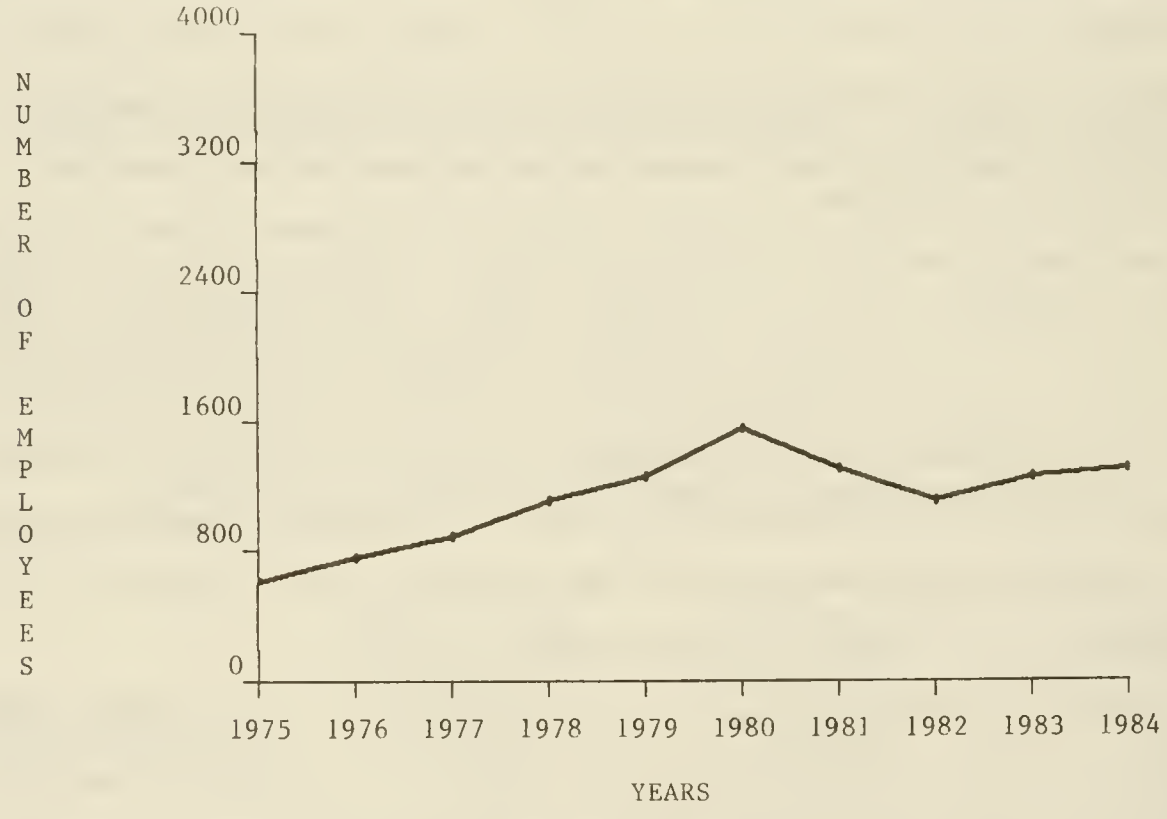
Is Coal Mining Continuing to Grow?

Coal mining employment and production statistics were examined to determine to what extent coal mining has grown.

Employment:

The first statistic reviewed was coal mining employment. As can be seen in graph 1, there was steady growth in employment from 1975 to 1980, but 1980 was the high point for coal mining employment. Employment levels since 1980 have averaged 1,275 to 1,300 employees.

Graph 1
Coal Mining Employment in Montana



Production:

An indicator of growth in coal mining is coal production and the forecast of coal production. Table 8, on the following page, compiled March 28, 1985 by the Office of

the Legislative Fiscal Analyst, details the recent history of coal production. The table also projects future coal production.

Table 8
Coal Production and Tax Revenue

Fiscal Year	Taxable Coal Production (in million tons)	CSP[1]	Gross Value (millions)	Coal Severance Tax (millions)
1980	34.4	$7.30	$250.9	$74.3
1981	30.1	7.84	236.4	70.4
1982	32.0	9.00	287.8	86.4
1983	26.4	10.11	267.3	80.0
1984	27.4	10.10	276.7	82.8
1985	30.7	9.93	304.4	91.3
	- - - - - - - - - - - - - - - - Projected - - - - - - - - - - - - - - - -			
1986	31.1	9.07	282.2	84.2
1987	32.2	8.76	282.0	83.3

[1] Contract sales price

As can be seen, the production of coal has been up and down with very little growth since 1980. The average tonnage over the five year period (1980-1985) has been 30.2 million tons. Future projections anticipate little growth in coal production, with an average of only 31.7 million tons per year being produced.

During the early 1970's, it appeared that coal would play a big part in Montana's economic future. Plans were made which would accommodate the expected growth in population and the governmental services that the new population would require. However, in the mid-1980's it would appear that the expected boom in growth never materialized to the extent expected.

Can Local Units Afford to Provide the Services?

The ability of local governmental units to finance local services was examined by reviewing the millage rate for county and school district services and by the types of basic services already financed by Coal Board grants.

Counties:

Big Horn County, whose county levy is 30.89 mills, and Rosebud County, whose county levy is 13.83 mills, are the major coal producing counties in Montana. However, these counties rank 48th and 56th respectively in the millage rate amongst Montana's 56 counties. The average total county millage rate charged in Montana is 64 mills. Big Horn County charges less then one-half the average rate and Rosebud County less then one-fourth the average rate. The mills levied for the general operations of the counties, Big Horn at 17.38 mills and Rosebud at 4.99 mills, rank 39th and 53rd in general fund millage. The state average is 22.95 mills.

Rosebud has the highest county-wide millage valuation ($244,365 per mill) and Big Horn ($127,756 per mill) is third highest. The average one mill valuation for the state is $41,600. Therefore, the value of one mill in Rosebud is almost six times the state average and the value on Big Horn is three times the state average. Rosebud and Big Horn have such high valuation due to the natural resources of coal, oil, and gas, and to the industries related to the natural resources found in those counties.

Both Rosebud and Big Horn Counties have very low property tax rates when compared to the rest of Montana. These counties could finance a larger portion of the projects supported by Coal Board grants if they would raise local property taxes to levels experienced in other counties in Montana.

School Districts:

There are three population centers within Rosebud and Big Horn Counties which can be compared with similar population centers around the state for local school tax effort. All three have lower school millage rates when compared to school millages of population areas of a similar population. Forsyth and Hardin were compared to communities with populations of 2,000 to 5,000. Forsyth's school millage rate is 108.83 and Hardin's is 67.93. The average school millage rate for communities of like size is

141.05. Therefore, Forsyth's tax rate is 32.22 mills less than the average and Hardin's is 73.12 mills less. Lodge Grass has a school millage rate of 92.93. The average school millage rate for a community the size of Lodge Grass is 143.23. This represents a difference of 50.30 mills from the average.

Colstrip has a school millage rate of 79.69. In 1980, the population of Colstrip was 1,476. The average school millage for a city of comparable size to Colstrip for 1984-85 is 159.31, or a difference of 79.62 mills. With "degree of local effort" being one of the criteria by which grants are evaluated and awarded, it appears the communities located within the coal developing region are subject to lower school millages than similar districts statewide. Table 9 summarizes the above information.

Table 9
School District Millage

School District	1984-85 Millage	1984-85 Millage Average of Comparable School System	Percent of Average
Hardin	67.93	141.05	48
Forsyth	108.83	141.05	77
Lodge Grass	92.93	143.23	65
Colstrip	79.69	159.31	50

Since 1977 the four school districts (Lodge Grass, Colstrip, Forsyth, and Hardin) have received 20 grants totaling $19,142,739. Table 10 details the number of Coal Board grants by school district.

Table 10
School District Grants

School District	No. of Grants	Total Dollars Granted
Hardin	3	$ 3,480,648
Forsyth	7	4,970,550
Lodge Grass	3	2,670,014
Colstrip	7	8,021,527
Total Grants	20	$19,142,739

Local Services Financed

Within the coal producing region the Coal Board has invested 188 grants totaling $58,910,630. Below is a breakdown of the purpose of grants awarded.

Table 11
Summary of Coal Board Grants

Grant Purpose	No. of Grants
- Education facilities	43
- Water and sewer systems	52
- Health care facilities	13
- Law enforcement and fire protection agencies	31
- Roads and road equipment	16
- Other	33
Total Grants	188

There has been a substantial amount invested in the basic services in the coal impact areas. To date, approximately 65 percent of the grants have been given to Rosebud and Big Horn Counties, or to local governmental units within either of the counties. With the stagnation in employment growth and coal production, and with

the number of local services grants given to date, the question arises: Is the upgrade in local services close to completion for the coal industry now in place?

There is substantial ability at the local level to finance and maintain the needed local governmental services. This ability to pay, plus the lack of growth in coal employment and coal production, raises questions about whether there are really local governmental services being demanded by the growth of the coal industry that could not be met with local resources while not unduly burdening the local taxpayer.

Conclusion

The legislature created the Coal Board and funding for Coal Board grants to aid local governmental units who were experiencing or expected to experience large-scale demand for expanded local services. Since 1980 there has not been significant growth in coal mining employment or production and there is no significant expansion of coal production forecasted in the near future. There also appears to be significant untapped potential at the local level to finance any additional public services.

According to the Coal Board, the only commitment made for fiscal years 1987 and 1988 is $712,650 in each fiscal year to Yellowstone County for the construction of a county jail.

Option A: Eliminate the Coal Board and redirect the Coal Board's fiscal 1987 coal severance tax allocation to the general fund. This option would increase general fund revenues by $2,199,275.

Option B: Retain the Coal Board but redirect the Coal Board's fiscal 1987 coal severance tax allocation, except the $712,650 committed to Yellowstone County Jail construction, to the general fund. This option would increase general fund revenues by $1,295,556.

ISSUE 4: TOURISM PROMOTION

The legislature has appropriated $1,593,964 ($1,243,964 general fund) for fiscal 1987 to the Montana Promotion Bureau. The division has 11 FTE whose program activities are:

* Produce and place T.V., radio, and magazine advertising
* Operate direct mail advertising campaign
* Publish over 12 promotional publications
* Seek publicity by hosting magazine, newspaper writers, and T.V. productions
* Promote Montana at national travel exhibitions
* Collect private contributions

Most of the activities are "active" in that the division, through advertising, is attempting to ignite a spark of interest in visiting Montana. By placing ads and having articles written and films made about Montana, the division hopes that readers and viewers who otherwise would not travel to Montana will be interested enough to either plan their vacations in Montana or at least write or call the division to get further information about travel opportunities in Montana. Only operating a direct mail advertising campaign is "reactive," meaning that the prospective tourist must write or call the division. The division will then send information about travel opportunities in Montana.

The information about tourism in Montana is not very comprehensive. Two recent studies commissioned by the division ("Montana Tourism Marketing Research Project, 1984," and "Montana Travel Industry, 1983") produced the following statistics. In 1983 the nonresident tourist (the tourist most of the division's efforts are directed at attracting) brought $127 million into Montana's economy. Nonresidents spent $423 million in Montana in 1983, but only 30 percent of that amount was considered expenditures by nonresidents traveling for pleasure. Thirty seven percent of the individuals surveyed in the research project said they wrote or called the state agency for assistance in vacation planning. Of the 37 percent, only 45 percent indicated that this information was used to determine which state to visit.

The Montana travel industry report attempted to estimate the gasoline, income, and property taxes that the nonresident tourist brought into Montana. Based on the expenditure figure of $423 million by nonresidents, the state collected $8.6 million in gasoline taxes, $14.3 million in income taxes, and $22.5 million in property taxes. Therefore, if $127 million of the $423 million (30 percent) was related to nonresident tourists, $2.6 million in gasoline taxes, $4.3 million in income taxes, and $6.7 million in property taxes can be attributed to nonresident tourists.

The missing link in the two reports is what percentage of nonresident tourists had no plans on coming to Montana until they were influenced by either an advertisement financed by the division or a vacation information packet supplied by the division. Tourist advertising is financed by national parks, local chambers of commerce, ski areas, outfitters, and others. These advertisers reduce the need for the state to finance tourism promotion. Does a dollar invested by the state return a dollar to the state in increased taxes? Would a substantial proportion of nonresident tourists vacation in Montana without the promotion? In fiscal 1986 the state is spending $1,243,964 in tourist promotion, but is the state treasury receiving a like amount or greater amount in increased tax receipts because of this promotion? Because of weaknesses in the studies pointed out above we don't have the answers to these questions.

In promoting tourism in Montana there are three options the legislature may wish to consider. First, the legislature may wish to provide no funds for promoting Montana. Second, the legislature could appropriate only enough funds to allow the division to react to requests for tourism information. Third, the legislature could continue the current level of tourism promotion where the division is actively promoting tourists to visit Montana.

The general fund appropriation for the division in fiscal 1987 is $1,243,964. This amount would be the general fund savings if the program were eliminated and assumes that the state would not respond to requests for travel and vacation information. Any information distributed would have to be done at the local level.

The state could provide a reactive promotion program to publish and distribute travel and vacation information on a requested basis. The division sent out 242,000 standard and specialized vacation and travel information packets only in fiscal 1985. The basic packet contains a map of Montana, an accommodation guide, and a vacation guide. Special informational packets are sent if a specific informational request is received. The state contracted with Helena area nonprofit agencies to put the packets together and stuff them in envelopes.

To continue to provide this same information on an annual basis should require a maximum staff of three, with some seasonal help to respond to requests for information in the spring when the number of informational requests is greatest. Table 12 below details a potential budget. The option would maintain the "Invite a Friend" program, which has one of the highest returns on investment of any tourism promotion.

Table 12
PROMOTION BUDGET "OPTION B"

Personal Services	$ 70,000
Contracted Services	59,426
Supplies and Materials	5,900
Communications (includes postage)	103,400
Rent	11,844
Repair and Maintenance	1,500
Other Expenses	23,703
Equipment	6,700
Total Cost	$282,473

Option A: Eliminate the program for a general fund savings of $1,243,964.

Option B: Reduce the program to provide response to travel information requests only for a $961,491 general fund savings.

ISSUE 5: BUSINESS ASSISTANCE DIVISION

The Business Assistance Division was created in July 1983 as a result of the reorganization of the former Economic and Community Development Division. The overall priorities of the division are to: 1) retain existing industry, 2) assist in the productivity and expansion of successful Montana businesses, and 3) create a climate conducive for new business starts or attraction of out-of-state industries to Montana. The division's overall mission is to stimulate economic growth and industrial diversification, thereby creating a stable business base and generating new employment opportunities.

The division is divided into seven programs, which are itemized below with a brief description.

A. The Small Business Advocate and Business Licensing Center: This program operates a toll-free business assistance hotline which allows new or existing businesses to obtain operating authority through a single source contact.

B. The Business Development Assistance Program: This activity provides comprehensive counseling and contracted specialists for Montana businesses experiencing difficulties or planning expanded operations. Additionally, this program identifies available federal government contracts and assists Montana firms in successfully bidding for long-term federal supply requisitions.

C. The Marketing Assistance Program: This effort assists Montana manufacturers in penetrating local, regional, and national markets through custom marketing strategies and product displays at targeted trade shows. Additionally, this program is the focal point for the "Made in Montana" consumer awareness campaign.

D. The Development Finance Assistance Program: This operation provides detailed information on finance methods and alternatives to Montana businesses in start-up, expansion, or survival phases. The specialist who conducts this program has obtained comprehensive training in loan packaging and blended financing, to successfully combine private and public funding options suited to a client's requirements.

E. The International Export Assistance Program: The objective of this program is to help Montana firms to enter international trade. A major emphasis has been placed on exporting Montana-made products to Canada and the Pacific Rim countries. Telex messages to foreign governments, foreign financial institutions, trading companies and U.S. Embassies abroad, are sent and received on behalf of Montana businesses. Additionally, this program is involved with conducting trade missions for Montana businesses. The program has been instrumental in attracting foreign procurement missions and potential foreign investors to Montana. The program works closely with the Montana International Trade Commission, 49th Parallel Institute, Foreign Trade Zone 88 (Great Falls), and the Port of Montana in Butte.

F. The Business Location Program: This effort has two distinct activities: Out-of-state business recruitment, and proper site location once an industry has expressed a commitment for locating within the state. Recruitment is performed through targeted advertising in industrial magazines, airport displays, and direct responses to inquiries. Site location includes analysis of unique business requirements including labor force, transportation systems, geographic preference and site amenities. Assisting in the recruitment effort are the Montana Ambassadors who promote Montana as a business location during their out-of-state travel. Recruitment and placement of foreign businesses is a function shared with the international trade program.

G. The Local Development Organization Assistance Program: This program works with local economic development agencies to educate them about the mechanics of business retention and attraction. The program assists local entities in creating the necessary framework for stimulating economic growth and mitigating the impact of industrial closures. Additionally, this program helps communities in developing professional community profiles to properly portray the locale to new business prospects.

Table 13 lists the 1986 general fund budget for each of the seven programs.

Table 13
Business Assistance General Fund Budget by Program
Fiscal 1986

Program	General Fund
- Business Location Promotion	$ 98,750
- Product Marketing Assistance	161,491
- Business Development Assistance	129,997
- Assistance to LDOS	96,497
- Small Business Advocate	58,577
- International Export Assistance	95,506
- Development Finance Program	71,491
Total Cost	$712,309

The legislature has appropriated $730,858 in fiscal 1987 for the operations of the division. The annual general fund budget for this division since fiscal 1984 has been: 1984 - $648,562; 1985 - $987,519; 1986 - $712,309; and 1987 - $730,858. Therefore, in four fiscal years the state will have invested $3,079,248 in this division. The issues to consider are: What has been and will be the return on the state's investment? Has the state realized an increase in tax revenues which equals

or is greater than the dollars the state has invested? What amount of return on investment is expected by the legislature from this program?

In December 1984, the division prepared a report entitled "Business Assistance Division, Summary of Programs." The report briefly describes each of the programs administered by the division and details the significant accomplishments since July 1, 1983. Within the seven programs administered by the division, there were 49 significant accomplishments listed. Only one of the 49 accomplishments (within the Business Development Assistance Program) detailed specifics, citing that 117.5 jobs were created and 13 companies experienced combined increased sales totaling $2,732,000. The cost to the general fund of maintaining this program for the same 18 month period for which the results were cited was $1,028,735. To recover these costs, each new employee would have to have paid $5,836 per year in income tax. The other accomplishments detail aid and assistance given companies, but none of the accomplishments give specific dollars and cents details that indicate that jobs were created or individuals were persuaded to stay in Montana.

This division is designed to maintain current business and bring new business and economic growth to Montana. At present there is no clear indication that this program has been successful. If the division cannot present evidence to the legislature which addresses these questions and prove to the legislature that this program is an asset to the state, the legislature may want to consider elimination.

Option A: Eliminate the Business Assistance Division for a savings of $730,858 to the general fund in fiscal 1987.

Option B: Eliminate the division with the exception of the Business Development Assistance Program. This would result in a general fund savings of $582,312.

Option C: Maintain the same level of support. The legislature may wish to require the division to document what jobs and other economic developments have been created that would justify its continued funding.

ISSUE 6: REDIRECTING LOCAL GOVERNMENT BLOCK GRANT FUNDS

The legislature appropriated $16,959,000 in fiscal 1986 and $17,383,000 in fiscal 1987 for Local Government Block Grants. The funds were appropriated to repay local government units for revenue lost in the switch from a property tax system to a fee system of registering light vehicles. Due to a drop in the revenue of the oil severance tax, and a district court ruling increasing the payments to Lewis and Clark County, revenues are anticipated to be $9.75 million less than appropriation in fiscal 1987. The legislature will need to decide if this shortfall is to be made up and how. The legislature may also consider making changes in the program that would replace and/or increase revenue to the general fund.

History

The conversion of light vehicles from a property tax to a fee system and the related actions to maintain local government revenue have evolved over the past three legislative sessions.

The 1981 legislature initiated the vehicle fee system to replace the property tax on automobiles and light trucks. The property tax paid on vehicles varied considerably between taxing jurisdictions. The institution of the vehicle fees made the amount paid on autos and light trucks the same in all taxing jurisdictions and substantially reduced the amount paid in the great majority of cases.

In order to protect local governments from a substantial loss in revenue, the act initiating vehicle fees also established a procedure for the state to reimburse local governments for any revenue loss. This procedure provided for calculation of the difference between the amount that would have been collected if vehicle fees had been in effect in 1981. The amount was converted to a loss per vehicle by dividing by the number of vehicles in the county. This revenue loss per vehicle has been multiplied by the number of registered vehicles in the county each year beginning in fiscal 1982 to calculate a state payment to the county for revenue loss relating to the vehicle fee system.

The 1983 legislature established the local government block grant to provide a general purpose block grant and a general services block grant. The payments to counties for revenue loss from the vehicle fee system were incorporated into the general purpose block grant. One-third of the oil severance tax revenues were also earmarked for the block grant.

The 1985 legislature increased vehicle fees in House Bill 870 to provide funding for the local government block grants, as revenues from the oil revenue tax were anticipated to be inadequate to fully fund the block grants. House Bill 870 requires that revenue from additional fees for the block grant be deposited in the local government block grant account.

Current Situation

As stated in the first paragraph, the legislature has appropriated $16,959,000 in fiscal 1986 and $17,383,000 in fiscal 1987 for the Local Government Block Grant Program. Both appropriations were estimates of the grant costs. The actual amount that has been paid out for fiscal 1986 was $16,813,747. Using actual expenditures in fiscal 1986, estimated expenditures for fiscal 1987, and the figures from LFA's revised oil severance tax revenue estimate, table 15 on the following page was developed to detail the expected shortage in revenues to finance the program.

Table 15
Local Government Block Grant Program

	Fiscal 1986	Fiscal 1987	Biennium Total
LGBG Program Cost	$16,813,747[1]	$17,253,000[2]	$34,066,747
Lewis & Clark Fiscal 1982-84 pmt.		1,016,958	1,016,958
Lewis & Clark Fiscal 1985-86 pmt.		797,864	797,864
Lewis & Clark Fiscal 1987 pmt.		434,536	434,536
Total LGBG Program Costs	$16,813,747	$19,502,358	$36,316,105
Revenues			
Oil Severance Tax	$11,991,519	$ 6,977,114	$18,968,633
Vehicle Fees	2,313,100	2,313,100	4,626,200
General Fund			
Fiscal 1986	1,470,000	-0-	1,470,000
Fiscal 1987	1,039,128	460,872	1,500,000
Total Revenues	$16,813,747	$ 9,751,086	$26,564,833
Total Shortfall	-0-	$ 9,751,272	$ 9,751,272
Revenue Shortfall	-0-	$ 7,936,450	$ 7,936,450
One-time Costs	-0-	1,814,822	1,814,822

[1]Actual
[2]Estimated

The LFA projects a $9,751,272 shortfall in revenues to fully fund the fiscal 1987 Local Government Block Grant Program. This shortfall should be divided into two categories: 1) the one-time costs associated with past and future reimbursements to Lewis and Clark County $1,814,822; and 2) the revenue shortfall of $7,936,450. In distributing the local government block grant appropriation for fiscal 1986, the department reimbursed counties at 100 percent of their revenue loss. The department interpreted the statutes related to the reimbursement as requiring them to reimburse at the 100 percent level. If the same interpretation is used in fiscal 1987, a supplemental would be needed to finance the projected $9,751,272 shortfall. In the department's summary table, on page 1, the LFA has recognized the need for a supplemental by adding $9,751,272 of general fund in the line entitled "supplemental expend."

The one-time costs are a result of a recent District Court decision that ordered the state to pay Lewis and Clark County for a miscalculation in the grant amount the county was eligible to receive from the state. For the fiscal period between fiscal 1982 and 1984, the state owes Lewis and Clark County $1,016,958, and for the time period of fiscal 1985 and 1986, the state may owe Lewis and Clark County $797,864. The estimated cost in fiscal 1987 to Lewis and Clark County would be $434,536. The payment to Lewis and Clark County has been broken down into the three time periods, because the District Judge's decision required the state to correct the error for the fiscal 1982 to fiscal 1984 period. The decision only covers this period of time because the lawsuit was initiated in 1984, and the three fiscal years were the period of time for which the county was seeking reimbursement. Since the county has won the argument, they would also be eligible to receive reimbursement for the other time periods. Therefore, the additional payments to Lewis and Clark County were included in table 15. At the time this report was written the executive branch had not decided whether to appeal the decision. If the decision is appealed, the state may be able to delay or eliminate the need to pay Lewis & Clark County.

The revenue shortfall is the result of three factors: 1) the program was initially not fully funded, according to LFA estimates; 2) the 2 percent reductions taken in January; and, 3) the decline in oil prices reduced the revenue from the oil severance tax. These factors were partially offset by higher than anticipated vehicle fee revenues.

In the LFA's "Appropriations Report 1987 Biennium", it was initially forecast that the Local Government Block Grant Program was underfunded by $2,186,000 for the biennium based upon then current estimates of oil severance tax revenues and vehicle fees. Because of further reductions in the price of oil, the LFA is now forecasting a revenue shortfall of $7,936,450.

As part of the Governor's 2 percent reduction program, the department reduced the block grant general fund appropriation by $30,000. However, when the

department made the block grant reimbursements to the counties the full amount claimed by the counties was paid out. This action merely required a larger ($30,000 additional) supplemental of fiscal 1987 general fund to fund the grants.

To eliminate the projected shortfall and/or replace the general fund and oil severance tax funding of the program, there are two alternatives which the legislature may wish to consider. The first alternative would be to raise the block grant vehicle fees to: A) cover the projected revenue shortfall and one-time costs associated with Lewis and Clark County settlement; B) cover the projected revenue shortfall and one-time costs and replace fiscal 1987 general fund ($1,500,000); or C) cover the projected shortfall and one-time costs, replace the general fund, and replace the oil severance tax. Option C assumes that the oil severance tax revenues would be redirected to the general fund. Option A would require raising an additional $9,751,272 from vehicle fees, or an average increase in the cost to register a light vehicle of 25.5 percent. Option B would require raising an additional $11,251,272, or a 29.4 percent rise in vehicle fees. Option C would require raising an additional $18,228,386, or a 47.7 percent increase in vehicle fees. Table 16 on the following page summarizes the current fee structure and what the block grant fee would have to raise to accomplish each of the options listed above.

Table 16
Vehicle Fees

Weight	Age	Purpose	1987	1987 Option A	1987 Option B	1987 Option C
Under 2,850	0-4	Local Gov't	$ 86.00	$ 86.00	$ 86.00	$ 86.00
		Dist. Court	7.00	7.00	7.00	7.00
		Block Grant	6.00	31.24	35.13	53.23
		Total	$ 99.00	$124.24	$128.13	$146.23
	5-7	Local Gov't	$ 49.00	$ 49.00	$ 49.00	$ 49.00
		Dist. Court	5.00	5.00	5.00	5.00
		Block Grant	3.00	15.62	17.57	26.62
		Total	$ 57.00	$ 69.62	$ 71.57	$ 80.62
	Over 8	Local Gov't	$ 12.00	$ 12.00	$ 12.00	$ 12.00
		Dist. Court	2.50	2.50	2.50	2.50
		Block Grant	1.50	7.81	8.78	13.31
		Total	$ 16.00	$ 22.31	$ 23.28	$ 27.81
Over 2,850	0-4	Local Gov't	$111.00	$111.00	$111.00	$111.00
		Dist. Court	7.00	7.00	7.00	7.00
		Block Grant	7.50	39.05	43.92	66.54
		Total	$125.50	$157.05	$161.92	$184.54
	5-7	Local Gov't	$ 61.00	$ 61.00	$ 61.00	$ 61.00
		Dist. Court	5.00	5.00	5.00	5.00
		Block Grant	4.00	20.83	23.42	35.49
		Total	$ 70.00	$ 86.83	$ 89.42	$101.49
	Over 8	Local Gov't	$ 18.00	$ 18.00	$ 18.00	$ 18.00
		Dist. Court	2.50	2.50	2.50	2.50
		Block Grant	2.00	10.41	11.71	17.74
		Total	$ 22.50	$ 30.91	$ 32.21	$ 38.24

A second alternative that the legislature could consider would be to return to the property tax system for registering light vehicles. This alternative would do away with the need for the state to reimburse counties for lost revenue. The

counties would go back to the pre-fiscal 1982 method of assessing a property tax on all light vehicles in the county. This alternative would cause disparity in the amount of vehicle fees that individual counties would collect. Those counties with low property tax millage would be assessing less for a light vehicle registration than a county with a high millage. The state would also still be liable for payments to Lewis & Clark County for fiscal 1982 through 1986. Table 17 details the various options.

Table 17
Local Government Block Grant Program Options

	Current Situation	Option A	Option B	Option C	Option D
LGBG Program	$17,253,000	$17,253,000	$17,253,000	$17,253,000	$ -0-
One-Time Costs	2,249,358	2,249,358	2,249,358	2,249,358	1,814,822
Total 1987 Costs	$19,502,358	$19,502,358	$19,502,358	$19,502,358	$1,814,822
Revenues					
Oil Severance	$ 6,977,114	$ 6,977,144	$ 6,977,144	$ -0-	$1,814,822
Vehicle Fees	2,313,100	12,064,342	13,564,342	20,541,486	-0-
General Fund	460,872	460,872	(1,039,128)	(1,039,128)	-0-
Total Revenue	$ 9,751,086	$19,502,358	$19,502,358	$19,502,358	$1,814,822
Shortfall	$ 9,751,272	-0-	-0-	-0-	-0-

Option A: Increase vehicle fees to make up the total shortfall for block grant funding with no general fund savings.

Option B: Increase vehicle fees to make up the shortfall for Block Grant funding and replace the general fund appropriated for fiscal 1987, for a general fund savings of $1,500,000.

Option C: Increase vehicle fees to make up the shortfall for block grant funding and replace general fund and oil severance tax for a general fund savings of $1,500,000 and a gain of new revenues to the general fund of $6,977,144.

Option D: Return the program to property tax funding for a general fund gain of $5,623,164.

ISSUE 7: ELIMINATE THE SCIENCE AND TECHNOLOGY PROGRAM

As part of the Build Montana Program, the legislature in 1983 created two new groups - the Advisory Council on Science and Technology and the Governor's Council on Science and Technology - whose responsibilities are the development of new ideas for economic growth. The Advisory Council on Science and Technology recommended that for fiscal 1986 the public and private sector share in the investment to stimulate scientific investigation and technology use and development. To accomplish these objectives the legislature appropriated $2,000,000 of alternative energy funds for the 1987 biennium to be used for:

1) research and development of new products, processes, or technologies which will make our basic industries more productive and profitable and which may have commercial application in new business;

2) technical assistance and transfer of new technology to existing Montana businesses in order to raise productivity and profitability and enhance technical skills and productivity of Montana workers;

3) seed capital, matched with private investment, to encourage commercialization of new processes and products -- both in Montana's traditional industries and in enterprises created by new technology.

Through the end of April 1986 the department had expended and encumbered $116,967 and have made commitments of $1,057,000 of the $2,000,000 appropriation. If the department does not commit any more funds before the end of the fiscal year and spends an additional $25,000 on administration, there would be over $800,000 that could be reappropriated to the general fund if the legislature eliminated the program.

If the legislature wishes to continue the administration of the program for fiscal 1987, the additional costs would be $140,000. This would keep in place the expertise to restart the program when grant funds become available.

Option A: Eliminate the Science and Technology Program in fiscal 1987, which would allow the legislature to redirect $800,000 of alternative energy funds to the general fund.

Option B: Eliminate the grants portion of the program in fiscal 1987. This would allow the legislature to redirect $660,000 of alternative energy funds to the general fund.

INSTITUTIONS

DEPARTMENT OF INSTITUTIONS

Governor's Issues	General Fund % Cut	Fiscal 1987 General Fund	Fiscal 1987 Other Funds	Fiscal 1987 Total
Issue 1: Across the Board Cuts				
Central Office	3.3	$ 438,330	$ 17,232	$ 455,562
Montana Developmental Center	0.0	-0-	-0-	-0-
Center For the Aged	2.0	50,096	-0-	50,096
Eastmont Training Center	2.0	41,617	-0-	41,617
Mountain View School	3.8	62,967	-0-	62,967
Pine Hills School	0.8	26,804	-0-	26,804
Montana State Prison	0.8	117,376	-0-	117,376
Swan River Forest Camp	3.5	33,530	-0-	33,530
Veteran's Home	1.3	23,836	-0-	23,836
Montana State Hospital	1.8	354,424	-0-	354,424
Board of Pardons	5.0	8,309	-0-	8,309
Montana Youth Treatment Center	0.0	-0-	-0-	-0-
Total Across the Board Cuts	1.6	$1,157,289	$ 17,232	$1,174,521
Issue 2: Central Office, Youth Evaluation Program		$ 110,169	-0-	$ 110,169
Issue 3: Mountain View, Youth Detention		102,000	-0-	102,000
Issue 4: State Hospital, Lighthouse		162,947	-0-	162,947
Total Policy Cuts		$ 375,116	$ -0-	$ 375,116
TOTAL GOVERNOR'S CUTS		$1,532,405	$ 17,232	$1,549,637
LFA Policy Options				
Employee Meals		$ 962,902	$(962,902)	$ -0-
Management Analyst - Director's Office		23,324	-0-	23,324
Financial Investigators - Management Services		52,600	-0-	52,600
Pre-release Depreciation		32,856	-0-	32,856
Mental Health Centers		877,000	-0-	877,000
Pine Hills School Interest and Income		59,000	-0-	59,000
Switchboard Operators - Montana State Hospital		78,834	6,897	85,731
TOTAL LFA OPTIONS		$2,086,516	$(956,005)	$1,130,511
COMBINED GOVERNOR CUTS AND LFA OPTIONS		$3,618,921	$(938,773)	$2,680,148
LESS: Duplicated Cuts		$ 316,991	$ -0-	$ 316,991
TOTAL UNDUPLICATED REDUCTION OPTIONS		$3,301,930	$(938,773)	$2,363,157

GOV. ISSUE 1: ACROSS THE BOARD CUTS

The Governor recommended across the board cuts totaling $1,174,521 for the Department of Institutions. They do not address any specific budget reductions.

Rather, they propose to reduce the appropriation authority for those institutions identified and let the institutions determine where and how the cuts will actually be made.

GOV. ISSUE 2: CLOSE THE YOUTH EVALUATION PROGRAM

See the LFA policy option on page 17.

GOV. ISSUE 3: CLOSE THE YOUTH DETENTION CENTER AT MOUNTAIN VIEW

The Governor has recommended the closure of the youth detention center at Mountain View by repealing the statutory provisions of House Bill 667, saving $102,000.

GOV. ISSUE 4: LIGHTHOUSE

The Governor has recommended as a policy cut, closing the Lighthouse Drug Treatment Program located on the Galen campus of Montana State Hospital. After phasing out those patients currently in treatment and paying the termination pay of 7.25 FTE, the Governor's cut would save $162,947 of general fund in fiscal 1987.

Closing Lighthouse is not a LFA policy option for three reasons: 1) state statute clearly defines the state's responsibility to provide services, including inpatient services, to those who are drug dependent in Title 53-24-101, 53-24-103(4) and 53-24-207, MCA; 2) there is no inpatient service alternative in the state for those patients who cannot pay for service; and 3) if the state were to close Lighthouse and contract with other drug programs to provide inpatient services, the costs would be significantly higher.

DUPLICATED CUTS

There are cuts identified in the Governor's budget and the Legislative Fiscal Analyst policy options that if both were accepted, would be a duplication. They are the Governor's across the board cuts in the Directors Office, Management Services Division, Mental Health and Residential Services Division, and Montana State Hospital,

which would duplicate LFA policy options of the management analyst, the financial investigators, the mental health centers, and the switchboard operators. As shown in table 1, the total duplication would amount to $316,991.

Table 1
Duplication Between Governor's Cuts and LFA Options

Issue/Agency	Gov. Cut	LFA Option	Duplication
1. Management Analyst/Directors Office	$ 22,391	$ 23,324	$ 22,391
2. Financial Investigators/Management Services	36,973	52,600	36,973
3. Mental Health Centers	178,793	877,000	178,793
4. Switchboard Operators/Montana State Hospital	354,424	78,834	78,834
Total	$592,581	$1,031,758	$316,991

DEPARTMENT OF INSTITUTIONS
CENTRAL OFFICE

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	173.45	173.45	170.5	170.5	(2.95)
Personal Service	$ 3,908,300	$ 4,038,023	$ 4,030,869	$ 4,411,707	9.3
Operating Expense	1,788,289	2,885,816	1,996,153	2,024,464	(29.8)
Equipment	105,704	241,283	102,405	4,990	(97.9)
Total Operating Costs	$ 5,802,293	$ 7,165,122	$ 6,129,427	$ 6,441,161	(10.1)
Non-Operating Costs	7,079,219	6,625,938	7,616,081	7,907,183	19.3
Total Expenditures	$12,881,512	$13,791,060	$13,745,508	$14,348,344	4.0
Fund Source					
General Fund	$ 9,953,831	$10,764,366	$10,936,968	$11,667,790	8.4
State Special	289,306	290,095	335,360	356,761	23.0
Federal Revenue	2,604,823	2,736,599	2,473,180	2,323,793	(15.1)
Proprietary Fund	33,552	-0-	-0-	-0-	---
Total Funds	$12,881,512	$13,791,060	$13,745,508	$14,348,344	4.0

ISSUES	Fiscal 1987	
	General Fund	Other Funds
1. Staff Meals	$(962,201)	$962,201

The Central Office of the Department of Institutions provides direction and administrative support for the state's institutions and community programs involving corrections, mental health, alcohol and drug abuse, and institutional programs for the developmentally disabled.

Programs

Programs within the Central Office are Director's Office, Corrections Division, Mental Health and Residential Services Division, Alcohol and Drug Abuse Division, and Management Services Division. Each program will be discussed in the narrative that follows. Table 1 shows the FTE and funding level by program.

Table 1
1987 Biennium FTE and Appropriation by Program

Program	Fiscal 1985 FTE	- Fiscal 1986 - FTE	Funding	- Fiscal 1987 - FTE	Funding
Director's Office	9.50	10.00	$ 385,161	10.00	$ 565,475
Management Services Div.	31.00	30.00	912,662	30.00	924,316
Alcohol & Drug Abuse Div.	10.00	10.00	1,664,812	10.00	1,662,021
Corrections Division:					
Administration	13.00	12.00	398,355	12.00	419,124
Pre-release	11.50	11.50	1,468,394	11.50	1,527,325
Community Programs	69.00	68.00	2,175,939	68.00	2,197,631
Women's Corrections	23.45	24.00	682,424	24.00	721,275
Corrections Medical	1.00	0.00	595,775	0.00	626,172
Mental Health Division	5.00	5.00	5,461,986	5.00	5,705,005
Total Agency	173.45	170.50	$13,745,508	170.50	$14,348,344

A total of 7.55 FTE were deleted from the Central Office current level budget. They include 1.0 FTE institutional industries coordinator, 1.0 FTE data entry operator, 2.0 FTE administrative officers in the Corrections Division, 1.55 FTE correctional officers at the Women's Correctional Facility, 1.0 FTE life skills attendant at the Women's Pre-release Center, and a 1.0 FTE physician in the Corrections Medical Program. A total of 4.60 FTE were added to the Central Office. A .50 FTE lawyer and a 1.0 FTE management analyst were added to the Director's Office and 3.10 FTE correctional officers were added at the Women's Correctional Facility.

ISSUE 1: FREE MEALS FOR INSTITUTIONAL EMPLOYEES

Staff at the state's institutions, except the Montana Youth Treatment Center, are allowed one free meal per shift. The one free meal per shift results from a combination of union contract provisions and past practices. According to a Department of Administration labor relations official, somewhere between one-fourth and one-third of the thirty bargaining units covering Montana State Hospital, the Montana State Prison, and the Montana Development Center have provisions in their contracts

requiring one meal per shift. All the other institutional staff receive a meal based on past practice. The elimination of this practice could save the general fund approximately $962,200 in fiscal 1987. The 1985 legislature set the precedent for this action by not allowing the free employee meal at the Montana Youth Treatment Center.

Table 2
Institutional Staff Meal Costs Fiscal 1987

Institution	FY1985 Cost Per Meal	Inflated Fiscal 1987 Meal Costs: Food Cost Per Meal	Labor Cost Per Meal	Total Cost Per Meal	Total Staff Meals	Total Staff Costs
Montana Development Center	$3.65	$0.89	$2.96	$3.85	92,115	$354,643
Center for Aged	2.11	0.85	1.38	2.23	20,250	45,158
Eastmont	2.61	0.83	1.93	2.76	17,526	48,372
Mountain View	2.20	0.94	1.39	2.33	14,586	33,985
Pine Hills	1.71	0.98	0.83	1.81	18,550	33,576
Prison	1.24	0.98	0.34	1.32	76,323	100,746
Swan River	2.08	1.08	1.12	2.20	6,953	15,297
Vet's Home	2.53	0.78	1.89	2.67	17,315	46,231
State Hospital	2.31	0.96	1.49	2.44	115,997	284,193
Total	$2.09	$1.06	$1.47	$2.53	379,615	$962,201

Option A: Charge institutional staff for meals reducing the general fund appropriations of the institutions by $962,201, and establish state special revenue appropriations in the same amount for employee meals.

Option B: Take no action.

DIRECTOR'S OFFICE

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	9.50	9.50	10.00	10.00	.50
Personal Service	$326,967	$326,292	$339,915	$526,111	61.2
Operating Expense	41,619	38,651	45,246	39,364	1.8
Equipment	216	6,256	-0-	-0-	---
Total Expenditures	$368,802	$371,199	$385,161	$565,475	52.3
Fund Source					
General Fund	$335,250	$371,199	$385,161	$565,475	52.3
State Special	-0-	-0-	-0-	-0-	---
Proprietary Funds	33,552	-0-	-0-	-0-	---
Total Funds	$368,802	$371,199	$385,161	$565,475	52.3

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. Delete Management Analyst Position	$(23,324)	-0-
2. 2 Percent Cuts	$(7,755)	-0-

The Director's Office coordinates and directs the administrative tasks of the Department of Institutions. The director, through his staff and administrative programs of the Central Office, assures the financial solvency and integrity of the department, assures uniform and appropriate personnel, budget, and legal policies and procedures throughout the department, assures that appropriate legal and inmate/patient treatment policies are maintained, and oversees the construction and maintenance programs of the 10 institution campuses.

The increase from fiscal 1985 to fiscal 1987 results from a line-item appropriation in the Director's Office budget of $172,000 in fiscal 1987 to meet anticipated additional workers' compensation costs. This amendment allows the director to allocate these

funds to the programs that experience workers' compensation rate increases above the levels included in the budget. Other increases include the pay plan of $13,991 and vacancy savings realized in fiscal 1985 of $9,570.

The 1985 legislature increased FTE by 1.5. This addition includes a .5 lawyer, which makes a total of two full-time lawyers compared to 1.5 FTE lawyers in the 1985 biennium, and 1.0 FTE management analyst to perform internal audits.

Personal services were decreased by the deletion of the industries coordinator position which was funded by the prison industries proprietary account in fiscal 1984. The director determined, as a result of the position vacancy, that current staff can operate the program under the supervision of the Corrections Division Administrator without the coordinator position.

After adjusting for inflation of $2,736 in fiscal 1987, operating expenses actually decrease from fiscal 1985 by $2,023. The decreases are primarily in professional contracts, $1,347, and office supplies, $1,277. Other minor differences amount to less than 1 percent.

ISSUE 1: DELETE MANAGEMENT ANALYST POSITION

A management analyst position was added by the 1985 legislature at the agency's request to perform internal audits. The Department has not yet filled the position. In light of budget constraints the position is likely to remain vacant throughout the biennium to accommodate the Governor's budget cuts. The deletion of this position will save approximately $23,324 general fund in fiscal 1987.

Option A: Delete the management analyst position and save approximately $23,324 in fiscal 1987.

Option B: Take no action.

ISSUE 2: REDUCE THE FISCAL 1987 GENERAL FUND $7,755

If the fiscal 1987 general fund is reduced by 2 percent, a savings of $7,755 will be realized. This reduction would be consistent with the Governor's 2 percent cut in fiscal 1986. The following table shows the first level adjustments to the Director's Office.

Table 3
Application of 2 Percent Cuts to Fiscal 1987
Director's Office

Expenditures	Fiscal 1987	2% Cuts	Revised Fiscal 1987
Personal Service	$520,410	$6,968	$513,442
Operating Expense	39,364	787	38,577
Equipment	-0-	-0-	-0-
Total	$559,774	$7,755	$552,019
Funding			
General Fund	$559,774	$7,755	$552,019

Option A: Reduce the fiscal 1987 general fund $7,755. If Option A of Issue 1 is selected, then no additional cuts should be taken.

Option B: Take no action.

MANAGEMENT SERVICES

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	31.00	31.00	30.00	30.00	(1.00)
Personal Service	$659,031	$678,127	$677,915	$716,849	5.7
Operating Expense	239,681	188,852	233,932	206,195	9.2
Equipment	57,392	125,660	815	1,272	(99.0)
Total Expenditures	$956,104	$992,639	$912,662	$924,316	(6.9)
Fund Source					
General Fund	$956,104	$992,639	$905,697	$924,316	(6.9)
State Special	-0-	-0-	875	-0-	-0-
Federal Revenue	-0-	-0-	6,090	-0-	-0-
Total Funds	$956,104	$992,639	$912,662	$924,316	(6.9)

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. 2 Financial Investigators	$(52,600)	-0-
2. 2 Percent Cuts	$(18,486)	-0-

The Management Services Division provides technical assistance to the institutions in budgeting, accounting, and other management areas. The Reimbursement Bureau is responsible for billing and collecting for services provided to residents in the state's institutions. The Information and Systems Bureau is responsible for coordinating data processing projects within the department.

The increase in personal services from fiscal 1985 to fiscal 1987 results from the pay plan increase of $37,689 in fiscal 1987. The 1985 legislature deleted a 1.0 FTE data entry operator that was left vacant in fiscal 1984 and fiscal 1985.

As a result of a data processing study authorized and conducted during the 1985 biennium, the department has implemented a new data processing system. All hardware and software costs are funded at current level with the exception of $23,195

per year added for operating costs over and above current level. The department's study indicated they could purchase hardware, develop software, and run the new programs for the same cost as they were paying the Department of Administration to run programs on the state's main computer. The Central Office has three programmers so there is no need to contract for outside programming. Computer hardware that was not purchased with the study funds appropriated in the 1985 biennium will be purchased under contract over the next three years.

The equipment expenditures reflected in fiscal 1985 include data processing equipment mentioned above. The fiscal 1987 equipment includes one typewriter and two calculators.

ISSUE 1: DELETE 2 FTE FINANCIAL INVESTIGATORS

The financial investigators conduct financial reviews to determine a patient's ability to pay for the services received in the state's institutions. Investigations are required upon admission or readmission to an institution as well as once each year for long term residents as set forth in 20.11.112(5) of the Administrative Rules of Montana.

The Department of Institutions currently has six financial investigator positions, and one has been vacant since December. Three positions are located at Montana State Hospital with two on the Galen Campus and one on the Warm Springs Campus. The remaining three investigators work out of the department's central office in Helena and conduct financial investigations of residents of the other five Mental Health and Residential Services Division institutions. Admissions and readmissions at Montana State Hospital represent 95 percent of all admissions and readmissions of the Mental Health Division and half of the total institutional population. Based on the comparative workloads it seems reasonable to assume a total of four investigators is sufficient to provide the required investigations. This would require deleting 2 investigators at approximately $24,500 each plus the associated travel costs for two

investigators of $3,600. The total general fund savings would be approximately $52,600.

Montana Development Center, Eastmont Training Center, Center for the Aged, and the Veteran's Home have relatively stable populations and therefore less need for special financial investigators. Not only have the populations of the above institutions stabilized but there has also been an overall decline in the state's institutional population. The mental health division institutional population has declined from 1,904 in fiscal 1975 to 1,056 in fiscal 1985 while total admissions have declined from 1,457 to 1,340 over the same period. Readmissions have increased from 666 in fiscal 1975 to 1,275 in fiscal 1985. There has been no reduction in the financial investigation staff over this ten year period. The combination of these two factors indicates a reduction in the financial investigation staff may be possible.

Option A: Delete 2 FTE financial investigators for a general fund savings of $52,600 in fiscal 1987.

Option B: Delete 1 vacant FTE financial investigator position and the associated travel costs for a total general fund savings of $28,100.

Option C: Take no action.

ISSUE 2: REDUCE FISCAL 1987 GENERAL FUND 2 PERCENT

If the fiscal 1987 general fund is reduced 2 percent, a savings of $18,486 will be realized. This reduction would be consistent with the Governor's 2 percent cut in fiscal 1986. The following table shows the first level adjustments to the Management Services Division.

Table 4
Application of 2 Percent Cuts to Fiscal 1987
Management Services Division

Expenditures	Fiscal 1987	2% Cuts	Revised Fiscal 1987
Personal Service	$716,849	$14,337	$702,512
Operating Expense	206,195	4,124	202,071
Equipment	1,272	25	1,247
Total	$924,316	$18,486	$905,830
Funding			
General Fund	$924,316	$18,486	$905,830

Option A: Reduce the fiscal 1987 general fund $18,486. If Option A or B of Issue 1 is selected then no additional cuts are necessary.

Option B: Take no action.

ALCOHOL AND DRUG ABUSE DIVISION

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	10.00	10.00	10.00	10.00	0.00
Personal Service	$ 255,165	$ 269,036	$ 276,914	$ 286,845	6.6
Operating Expense	100,649	73,425	116,988	99,874	36.0
Equipment	8,125	7,687	3,000	3,000	(61.0)
Total Operating Costs	$ 363,939	$ 350,148	$ 396,902	$ 389,719	11.3
Non-Operating Costs	1,269,013	1,324,079	1,267,910	1,272,302	(3.9)
Total Expenditures	$1,632,952	$1,674,227	$1,664,812	$1,662,021	(0.7)
Fund Source					
General Fund	$ 219,592	$ 230,925	$ 215,200	$ 219,592	(4.9)
State Special	289,306	290,095	334,235	356,511	22.9
Federal Revenue	1,124,054	1,153,207	1,115,377	1,085,918	(5.8)
Total Funds	$1,632,952	$1,674,227	$1,664,812	$1,662,021	(0.7)

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. 2 Percent Cuts	$(4,392)	-0-

The Alcohol and Drug Abuse Division's (ADAD) role is to administer chemical dependency programs and distribute state funds to certified community programs. The division approves treatment facilities and programs, certifies approved programs, and prepares a long-term state chemical dependency plan.

Operating expenses increased from fiscal 1985 in three areas: (1) data processing costs of $9,800 spent in the base year, fiscal 1984, and budgeted in both fiscal 1986 and 1987 were not expended in fiscal 1985, (2) publication expenses of $1,947 were spent in the base year and budgeted in each year of the biennium but not spent in fiscal 1985, and (3) $7,690 less was spent on in-state travel in fiscal 1985 than in

the base year and subsequently budgeted in each year of the 1987 biennium. The balance of the difference is due to inflation in fiscal 1987 of $6,884.

Equipment is for the purchase of six films per year. These films are purchased for distribution to the local alcohol and drug programs through the health department film library.

Non-operating expenses consist of the distribution of alcohol earmarked tax revenue to county alcohol programs, discretionary grants to local alcohol programs, and grants to local drug programs. The table below shows the non-operating expenses and funding.

Table 5
Alcohol and Drug Abuse Division Non-operating Expenses and Funding - Fiscal 1987

	General Fund	Alcohol*	Federal Block Grant	Total	General Fund	Alcohol*	Federal Block Grant	Total
County Payments	$ -0-	$1,589,771	$ 248,202	$1,837,973	$ -0-	$1,589,771	$ 248,202	$1,837,973
Discretionary Grants	-0-	-0-	398,622	398,622	-0-	-0-	398,622	398,622
Drug Program	219,592	-0-	405,886	625,478	219,592	-0-	405,886	625,478
Total	$219,592	$1,589,771	$1,052,710	$2,862,073	$219,592	$1,589,771	$1,052,710	$2,862,073

*The alcohol earmarked revenue is appropriated by statute in Section 53-24-206, MCA. Therefore, the alcohol funds are not included in the non-operating costs on the ADAD main table.

Non-operating expenses decrease as a result of decreasing federal funds and maintaining general fund at a constant matching level. In the drug program, the general fund provides a 35 percent match against federal block grant funds. This match is not a federal block grant requirement but is based on past practice.

House Bill 500 authorizes the department to maintain an aggregate funding level of $2,236,595 during fiscal years 1986 and 1987 for those substance abuse programs that during fiscal 1984 were partially or totally funded by county payments and

discretionary grants under the provision of Section 53-24-206, MCA. Expenditures of revenues available under Section 53-24-206, MCA, when combined with the discretionary distribution of the federal alcohol abuse block grant, may not exceed the aggregate funding totals specified above. The total authorized here consists of $1,589,771 alcohol funds, $248,202 of federal block grant carry-over funds and $398,622 of federal block grant discretionary funds as reflected in table 5.

The alcohol funds are distributed to counties based on a formula which includes both population and land area. The counties then distribute the funds to approved private non-profit and county alcohol programs. The sources of these alcohol funds are the excise tax on wine and beer, the liquor license tax, and the federal alcohol abuse block grant. The block grant funds are legislatively appropriated to the department for distribution to the alcohol programs, while the earmarked alcohol funds are appropriated in statute.

ISSUE 1: REDUCE THE FISCAL 1987 GENERAL FUND 2 PERCENT

If the fiscal 1987 general fund is reduced by 2 percent, a savings of $4,392 will be realized. This reduction would be consistent with the Governor's 2 percent fiscal 1986 cuts.

As table 6 shows, the ADAD cuts are in non-operating expenses since the ADAD general fund is used in the drug programs.

Table 6
Application of 2 Percent Cuts to Fiscal 1987
Alcohol and Drug Abuse Division

Expenditures	Fiscal 1987	2% Cuts	Revised Fiscal 1987
Personal Service	$ 286,845	$ -0-	$ 286,845
Operating Expense	99,874	-0-	99,874
Equipment	3,000	-0-	3,000
Total	$ 389,719	$ -0-	$ 389,719
Non-Operating	1,272,302	4,392	1,267,910
Total	$1,662,021	$4,392	$1,657,629
Funding			
General Fund	$ 219,592	$4,392	$ 215,200
State Special	356,511	-0-	356,511
Federal & Other	1,085,918	-0-	1,085,918
Total	$1,662,021	$4,392	$1,657,629

Option A: Reduce the fiscal 1987 general fund $4,392.

Option B: Take no action.

CORRECTIONS DIVISION

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	93.50	93.00	91.50	91.50	(1.50)
Personal Service	$2,038,299	$2,072,840	$2,075,108	$2,183,057	5.3
Operating Expense	682,538	689,745	736,807	772,511	12.0
Equipment	34,164	90,841	98,590	-0-	---
Total Operating Costs	$2,755,001	$2,853,426	$2,910,505	$2,955,568	3.6
Non-Operating Costs	741,186	1,004,528	1,132,183	1,188,512	18.3
Total Expenditures	$3,496,187	$3,857,954	$4,042,688	$4,144,080	7.4
Fund Source					
General Fund	$3,490,012	$3,855,640	$4,039,843	$4,141,131	7.4
State Special	-0-	-0-	250	250	---
Federal Revenue	6,175	2,314	2,595	2,699	16.6
Proprietary Funds	-0-	-0-	-0-	-0-	---
Total Funds	$3,496,187	$3,857,954	$4,042,688	$4,144,080	7.4

ISSUES	Fiscal 1986		Fiscal 1987	
	General Fund	Other Funds	General Fund	Other Funds
1. Men's Pre-release	$(32,856)	-0-	$(32,856)	-0-
2. Youth Evaluation Program	-0-	-0-	$(127,689)	-0-
3. 2 Percent Cuts	-0-	-0-	$(82,823)	-0-

The Corrections Division provides coordination, supervision, and support to the correctional programs of the state. These programs include the Montana State Prison, Swan River Forest Camp, Pine Hills School, Mountain View School, Women's Correctional Facility, five pre-release centers, Juvenile Aftercare, Probation and Parole, and the Corrections Medical Programs.

The Central Office budget includes corrections administration, men's pre-release centers, community programs, women's corrections, and corrections medical. The main table above includes all but women's corrections and corrections medical, which are shown separately later in this section.

The increase in personal services from fiscal 1985 to fiscal 1987 is due to the pay plan increases. The FTE level has decreased as a result of eliminating two vacant administrative officer positions which were vacant in fiscal 1984 and fiscal 1985.

Operating expenses increased in two areas; (1) building rent increased $18,704 from fiscal 1985 to fiscal 1987 as a result of increases at the Missoula Pre-release Center of $6,341 and the Billings parole and probation office of $12,363, and (2) $12,117 for additional EMIT supplies, which are used to test for illicit drugs. The balance of the difference is due to inflation of $58,809 in fiscal 1987.

Non-operating costs support the three men's contract pre-release centers. The major increase is due to inflation in fiscal 1987 of $106,855. The balance is due to line items added to the contracts to cover psychological exams, EMIT supplies, personal items, utilities, and depreciation. These line items add approximately $74,000 to the base.

ISSUE 1: REDUCE DEPRECIATION LINE ITEMS FOR THE MEN'S CONTRACT PRE-RELEASE CENTERS

Depreciation was inadvertently included twice in the men's contract pre-release center budgets. The subcommittee included $10,952 per center during the hearings, or a total of $32,856. Later the House Appropriations Committee also included $5,000 per center. The intent of the House Appropriations Committee was to only allow $5,000 per center each year, however, no action was taken to delete the $10,952 per center. The following table from page 277 of the Legislative Fiscal Analyst Appropriations Report is included to illustrate the problem.

Table 7
Total Cost of Pre-release Centers at 25 Average Daily Population
Fiscal 1986

	Butte Pre-release	Great Falls Pre-release	Billings Alpha House	Total
Total Care Days	9,125	9,125	9,125	27,375
Cost Per Day	$ 36.92	$ 39.29	$ 38.22	$ 38.15
Contract Cost	$336,950	$358,512	$348,784	$1,044,246
Add: Phsychological	$ 1,550	$ 1,550	$ 1,550	$ 4,650
EMIT Supplies	8,484	8,484	8,484	25,452
Personal Items	643	643	643	1,929
Utilities	12,854	12,854	5,447	31,155
*Depreciation	15,952	15,952	15,952	47,856
Total Cost Per Day	$ 41.25	$ 43.62	$ 41.74	$ 42.20

*Note: Depreciation was inadvertently included twice; the subcommittee included $10,952 per center, then the House Appropriations Committee included $5,000 per center. The intent of the House Appropriations Committee was to allow only $5,000 per center per year. However, the $10,952 per center is also in the appropriation amount.

Option A: Reduce fiscal 1986 and 1987 by $32,856, respectively.

Option B: Take no action.

ISSUE 2: CLOSE THE YOUTH EVALUATION PROGRAM

The Youth Evaluation Program is located in Great Falls and conducts 45-day evaluations in a community setting. The program has an average daily population of 5.3 youth and serves approximately 55 youth per year with 6.0 FTE. The Governor's budget office, during the 1985 session, recommended closing the Youth Evaluation Program and conducting the evaluations at Mountain View School and Pine Hills School.

Closing YEP on June 30 would save approximately $127,689 in fiscal 1987. The incremental costs of adding 5.3 ADP to Mountain View School and Pine Hills School should not create fiscal hardships for either institution. In subcommittee hearings

during the last regular session of the legislature, the department director testified that evaluations of the YEP youth could be conducted at the institutions.

Option A: Discontinue the Youth Evaluation Program saving $127,689 general fund and move the 45-day evaluations to Mountain View and Pine Hills Schools.

Option B: Take no action.

ISSUE 3: REDUCE THE FISCAL 1987 GENERAL FUND 2 PERCENT

If the fiscal 1987 general fund is reduced by 2 percent, a savings of $82,823 will be realized. This reduction is consistent with the Governor's 2 percent fiscal 1986 cuts. The following table shows the first level reductions to the Correction's Division.

Table 8
Application of 2 Percent Cuts to Fiscal 1987
Correction's Division

Expenditures	Fiscal 1987	2% Cuts	Revised Fiscal 1987
Personal Services	$2,183,057	$43,662	$2,139,395
Operating Expenses	772,511	15,391	757,120
Equipment	-0-	-0-	-0-
Total	$2,955,568	$59,053	$2,896,515
Non-Operating	1,188,512	23,770	1,164,742
Total	$4,144,080	$82,823	$4,061,257
Funding			
General Fund	$4,141,131	$82,823	$4,058,308
State Special	250	-0-	250
Federal & Other	2,699	-0-	2,699
Total	$4,144,080	$82,823	$4,061,257

Option A: Reduce the fiscal 1987 general fund by $82,823. If Option A of Issue 2 is selected, then no additional cuts should be taken.

Option B: Take no action.

WOMEN'S CORRECTIONS

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	23.45	23.45	24.00	24.00	.55
Personal Service	$408,791	$440,009	$482,051	$510,621	16.1
Operating Expense	138,829	179,040	200,373	209,936	17.3
Equipment	3,714	17,906	-0-	718	(96.0)
Total Expenditures	$551,334	$636,955	$682,424	$721,275	13.2
Fund Source					
General Fund	$551,334	$636,955	$682,424	$721,275	13.2

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. 2 Percent Cuts	$(14,426)	-0-

The Women's Corrections Program has three components. (1) The Women's Correctional Facility at the Warm Springs Campus of Montana State Hospital is a minimum-to-medium security facility for Montana's female offenders requiring incarceration. (2) The Billings Life Skills Pre-release Center located in Billings is a state operated pre-release center with a capacity for 12 women inmates. (3) The third component is the housing of female offenders in jails within the state pending placement, or in out-of-state prisons because of their security classification. The current level allows for an average daily population of 25 women at the women's prison in Warm Springs and eight women at the Billings Pre-release Center. The budget also allows for one out-of-state placement costing $17,155. This is an increase in the average daily population of ten over fiscal 1984. The daily population at the Women's Correctional Facility averaged 25.4 in fiscal 1985 and has averaged 28.3 in the first six months of fiscal 1986. The Billings Life Skills Pre-release Center averaged 8.6 in fiscal 1985 and 9.2 for the first half of fiscal 1986.

The increase in personal services from fiscal 1985 to fiscal 1987 results from three factors: (1) pay plan increases in fiscal 1987 of $27,173, (2) the net increase in FTE of .55 costing approximately $7,300, and (3) net vacancy savings realized in fiscal 1985 of approximately $26,000.

Operating expenses increase due to fiscal 1987 inflation of $17,942 and the $21,454 appropriated for the placement of women prisoners out-of-state. These increases are offset by reductions in budgeted food costs of $4,400, budgeted natural gas costs of $3,434, and one-time communication charges of $1,700. Other minor changes amount to less than 1 percent.

ISSUE 1: REDUCE THE FISCAL 1987 GENERAL FUND 2 PERCENT

If the fiscal 1987 general fund is reduced by 2 percent, a savings of $14,426 will be realized. This reduction would be consistent with the Governor's cuts in fiscal 1986. The following table shows the first level adjustments to women's corrections.

Table 9
Application of 2 Percent Cuts to Fiscal 1987
Women's Corrections Program

Expenditures	Fiscal 1987	2% Cuts	Revised Fiscal 1987
Personal Service	$510,621	$10,213	$500,408
Operating Expense	209,936	4,199	205,737
Equipment	718	14	704
Total	$721,275	$14,426	$706,849
Funding			
General Fund	$721,275	$14,426	$706,849

Option A: Reduce the fiscal 1987 general fund by $14,426.

Option B: Take no action.

CORRECTIONS MEDICAL

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	1.00	1.00	0.00	0.00	(1.00)
Personal Service	$ 52,269	$ 78,549	$ -0-	$ -0-	-0-
Operating Expense	530,529	664,589	595,775	626,172	(5.8)
Equipment	-0-	-0-	-0-	-0-	-0-
Total Expenditures	$582,798	$743,138	$595,775	$626,172	(15.7)
Fund Source					
General Fund	$582,798	$743,138	$595,775	$626,172	(15.7)

The Corrections Medical Program consolidates the outside medical costs of all the correctional institutions as well as the pre-release centers and after-care. Medical costs at Mountain View School and Pine Hills School have been added to the corrections medical budget for the 1987 biennium. The total average daily population served by this program is projected to be 1,256.

The physician position which was reflected in fiscal 1984 costs has been transferred to the prison budget.

Budgeted operating costs decrease from fiscal 1985 to fiscal 1987 even though the fiscal 1987 budget includes the addition of medical costs of $42,490 for Mountain View and Pine Hills. After adjusting for inflation in fiscal 1987, the actual decrease is $97,072. This results from higher than anticipated costs in fiscal 1985 where operating expenses increased $134,060 over fiscal 1984. Through March 1986, the department has spent $591,074 or 99 percent of its fiscal 1986 budget allocation of $595,775. It should be noted that this allocation is after the fiscal 1986 2 percent cut of $12,159. The department is spending at the rate of $66,600 per month. If this level continues the department will be out of funds by December 1986, or half way through fiscal 1987.

The accelerated use of these funds results primarily from two factors: 1) the correctional institution populations are approximately 18 percent higher than anticipated, and 2) several high cost medical expenditures, particularly for prison inmates. The following is a list of fiscal 1986 medical costs in excess of $10,000 paid for prison inmates.

Table 10
Montana State Prison Medical Costs in Excess of $10,000
Fiscal 1986

Gallbladder Removal	$ 34,475
Colostomy	29,047
Self-Ingested Foreign Body	14,709
Thrombophlebitis	14,259
Hodgkins Disease	25,530
Pneumonia	13,200
Angioplasty-Occluded Coronary Artery	11,947
Pneumonia	29,879
Infected Cervical Fusion	20,790
Self-Ingested Foreign Body	19,537
Attempted Self Strangulation	15,303
Total	$228,676

Note: The above data does not represent all medical costs of the prison.

The Department has no control over the number of inmates sentenced by the courts or the medical condition of those sentenced. The only controls the department has over this budget is a medical review board, which reviews requests for elective treatment of medical problems of a non-emergent nature, and preventive measures that can be practiced within the institutions.

With the transfer authority included in House Bill 500, the Department could use savings realized by the delayed prison expansion to apply to this projected shortfall. However, fiscal 1986 savings at the prison would have to be applied to the fiscal 1986 medical budget shortfall.

MENTAL HEALTH DIVISION

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	5.00	5.00	5.00	5.00	0.00
Personal Service	$ 167,778	$ 173,170	$ 178,965	$ 188,224	8.7
Operating Expense	54,444	46,986	67,032	70,412	49.9
Equipment	2,093	12,826	-0-	-0-	---
Total Operating Costs	$ 224,315	$ 232,982	$ 245,997	$ 258,636	11.0
Non-Operating Costs	5,069,020	5,281,965	5,215,989	5,446,369	3.1
Total Expenditures	$5,293,335	$5,514,947	$5,461,986	$5,705,005	3.5
Fund Source					
General Fund	$3,818,741	$3,933,880	$4,112,868	$4,469,829	13.6
Federal Revenue	1,474,594	1,581,067	1,349,118	1,235,176	(21.9)
Total Funds	$5,293,335	$5,514,947	$5,461,986	$5,705,005	3.5

ISSUES - Fiscal 1987	General Fund	Other Funds
1. Reduce CMHC Contracts	$(877,000)	-0-
2. 2 Percent Cuts	$(89,397)	-0-

The Mental Health and Residential Services Division provides administrative supervision and coordination for the institutional and community programs for the mentally ill, institutional programs for the developmentally disabled, and institutional programs for veterans and geriatrics with emotional problems. Community-based services for the mentally ill are provided through contracts administered by the Mental Health Division with the five private, non-profit, regional community mental health centers (CMHC). The division contracts for in-patient, emergency, day treatment, transitional living, community living support, out-patient, and prevention services.

The personal service increase from fiscal 1985 to fiscal 1987 results from pay plan increases of $8,290 in fiscal 1987 and vacancy savings of $4,502 realized in fiscal 1985. Other differences amount to less than 1 percent.

Operating costs increase $23,426 from fiscal 1985 to fiscal 1987. This increase results from inflation of $5,593, and an overall savings realized in the fiscal 1985 operating expenses of $32,625 offset by the addition of $13,484 of training funds. Other differences amount to less than 1 percent.

Non-operating costs reflect the contracts with the five regional community mental health centers.

Federal block grant funds decrease from the 1985 biennium to the 1987 biennium as a result of three factors; 1) federal legislation limited the block grant to no increase above the 1985 level, 2) the division will run out of block grant carryover funds in fiscal 1986 leaving only the 1985 grant amount for fiscal 1987, and 3) the division had a one-time federal jobs bill grant of $76,876 in the 1985 biennium that is not carried into the 1987 biennium. The general fund was increased in the 1987 biennium to maintain current level services to the community mental health centers.

ISSUE 1: LIMIT THE PURCHASE OF SERVICES AT THE COMMUNITY MENTAL HEALTH CENTERS TO THOSE PATIENTS FUNCTIONING AT LEVELS 1 THROUGH 5 ON THE FUNCTIONING ASSESSMENT SCALE, FAS

Title 53, Chapter 21, parts 1-5 of the Montana Codes Annotated describes the State's responsibility for the treatment of the seriously mentally ill. The purpose of this part as stated in Section 53-21-101, MCA, is to:

1) secure for each person who may be seriously mentally ill or suffering from a mental disorder such care and treatment as will be suited to the needs of the person and to insure that such care and treatment are skillfully and humanely administered with full respect for the person's dignity and personal integrity;
2) accomplish this goal whenever possible in a community-based setting;
3) accomplish this goal in an institutionalized setting only when less restrictive alternatives are unavailable or inadequate and only when a person is so mentally ill as to require institutionalized care; and

4) assure that due process of law is accorded any person coming under the provisions of this part.

As stated above, the state's purpose is to secure care and treatment for persons who are seriously mentally ill or suffering from a mental disorder. The following are the definitions of seriously mentally ill and mental disorders as provided in Section 53-21-102, MCA:

(5) "Mental disorder" means any organic, mental, or emotional impairment which has substantial adverse effects on an individual's cognitive or volitional functions.

(14) "Seriously mentally ill" means suffering from a mental disorder which has resulted in self-inflicted injury or injury to others or the imminent threat thereof or which has deprived the person afflicted of the ability to protect his life or health. For this purpose, injury means physical injury. No person may be involuntarily committed to a mental health facility or detained for evaluation and treatment because he is an epileptic, mentally deficient, mentally retarded, senile, or suffering from an mental disorder unless the condition causes him to be seriously mentally ill within the meaning of this part.

The department contracts with the 5 regional community mental health centers on a fee-for-service basis. The department currently contracts for a range of mental health services to be provided to clients who are functioning at a level of 6 or below on the functioning assessment scale (FAS).

FUNCTIONING ASSESSMENT SCALE

Level 1: Dysfunctional in all four areas (personal self-care, social, vocational/educational, and emotional symptoms/stress tolerance) and is almost totally dependent upon others to provide a supportive, protective environment.

Level 2: Not working; ordinary social unity cannot or will not tolerate the person; can perform minimal self-care functions but cannot assume most responsibilities or tolerate social encounters beyond restrictive settings (e.g., in group, play, or occupational therapy).

Level 3: Not working; probably living in ordinary social unity but not without considerable strain on the person and/or on others in the household. Symptoms are such that movement in the community should be restricted or supervised.

Level 4: Probably not working, although may be capable of working in a very protective setting; able to live in ordinary social unit and contribute to the daily routine of the household; can assume

responsibility for all personal self-care matters; stressful social encounters ought to be avoided or carefully supervised.

Level 5: Emotional stability and stress tolerance are sufficiently low that successful functioning in the social and/or vocational educational realms is marginal. The person is barely able to hold on to either job or social unit, or both, without direct therapeutic intervention and a diminution of conflicts in either or both realms.

Level 6: The person's vocational and/or social areas of functioning are stabilized, but only because of direct therapeutic intervention. Symptom presence and severity are probably sufficient to be both noticeable and somewhat disconcerting to the client and/or to those around the client in daily contact.

Level 6 was negotiated as the cut-off point in 1981 when the fee-for-service was instituted. There seems to be a conflict between what Section 53-21-102, MCA, defines as seriously mentally ill or a mental disorder, for which the state wishes to secure services, and the person functioning at level 6 on the FAS. A person who is stabilized and functioning on the job or socially and cognizant of the presence of symptoms as to be disconcerted, probably does not have substantial effects from organic, mental or emotional impairment and would not be considered seriously mentally ill. Therefore if the FAS is to be used as a determinant for state purchased services, then the level at which the state purchases services should closely coincide with provisions of Sections 53-21-101 and 102, MCA.

The elimination of services for FAS level 6 will save approximately $877,000 general fund in fiscal 1987. This is based on services provided to mental health center clients, levels 1 through 5, in fiscal 1985 and uses fiscal 1986 unit rates inflated by 2.9 percent. The units provided to levels 1 through 5 have been reduced by the fiscal 1985 proportion of medicaid re-imbursable to total state billable services.

Table 11
Projected Savings Generated by Limiting
the Purchase of Services to the Fiscal 1985 Levels 1 through 5

Services	FY 1987 Unit Contract Rate	FY 1987 Level 1-5 Units	FY 1987 Total Units	FY 1987 Level 1-5 Cost	FY 1987 Cost	Savings
Inpatient I	$109.00	3562	3168	$ 388,265	$ 345,318	$ 42,947
Inpatient II	47.38	1443	1286	68,362	60,924	7,438
Day Treatment	7.19	131436	111338	945,381	800,822	144,559
Outpatient Individual	56.60	32558	25188	1,842,620	1,425,515	417,105
Outpatient Group	12.23	13755	9030	168,290	110,480	57,810
Emergency	57.05	5842	2639	333,273	150,549	182,724
Community Support	11.49	41776	39635	480,170	455,562	24,609
*Transitional Living I	41.09	26107	26107	1,072,684	1,072,684	-0-
*Transitional Living II	6.33	13435	13435	85,021	85,021	-0-
**Prevention	50.94	1223	1223	62,295	62,295	-0-
Total Cost				$5,446,360	$4,569,170	$877,191
Funding						
Federal Block Grant				$1,235,176	$1,235,176	$ -0-
General Fund				4,211,185	3,333,994	877,191
Total Funding				$5,446,361	$4,569,170	$877,191

*There are no savings shown for Transitional Living due to incomplete data.
**Prevention Services are not purchased based on FAS level.

Upon close inspection, the FAS as an instrument for measuring the degree of a person's mental illness does not afford a succinct, accurate method of determining whether a person is seriously mentally ill or suffering from a mental disorder that is substantially affecting cognitive or volitional functioning. From the perspective of prioritizing state eligible services, to ensure that the seriously mentally ill and those suffering from mental disorders are receiving appropriate services in the least restrictive environment, a more accurate verifiable instrument could be used. Level 6 can be (and has been) interpreted to describe any and all clients who voluntarily come to a mental health center for services. Levels 5 and 6 both imply that the

person is already receiving service and that the person is functioning satisfactorily only because of regular services. Because the FAS is such an interpretive scale, perhaps an alternate method of determining state eligible clients could be adopted.

The state, as an alternative to the FAS, could purchase services through the fee-for-service based on diagnosis. The Diagnostic and Statistical Manual of Mental Disorders (third edition) or DSM-III, is a universally accepted manual used to categorize and identify diagnosis. Using the DSM III, the department could develop a list of diagnosis for the state to purchase. This method would provide a more verifiable and accurate mechanism for the purchase of state priority services.

Option A: Limit the purchase of state community mental health services to those purchased in fiscal 1985 for patients functioning at level 1 through 5 on the functioning assessment scale. Based on the fiscal 1985 services provided to levels 1 through 5 and applying fiscal 1987 unit rates, approximately $877,000 general fund could be saved.

Option B: Require the department to develop new criteria for state billable services based on selected diagnosis from the Diagnostic and Statistical Manual of Mental Disorders (third edition).

Option C: Take no action.

ISSUE 2: REDUCE THE FISCAL 1987 GENERAL FUND 2 PERCENT

If the fiscal 1987 general funds are reduced by 2 percent as the Governor did in fiscal 1986, $89,397 will be saved. Table 12 shows the first level adjustments to the Mental Health Division.

Option A: Reduce the general fund by $89,397. If Issue 1 is selected then applying a 2 percent reduction to the non-operating portion, or $84,225 in this option would be a duplication.

Option B: Take no action.

Table 12
Application of 2 Percent Cuts to Fiscal 1987
Mental Health Division

Expenditures	Fiscal 1987	2% Cuts	Revised Fiscal 1987
Personal Service	$ 188,224	$ 3,764	$ 184,460
Operating Expense	70,412	1,408	69,004
Equipment	-0-	-0-	-0-
Total	$ 258,636	$ 5,172	$ 253,464
Non-Operating	5,446,369	84,225	5,362,144
Total	$5,705,005	$89,397	$5,615,608
Funding			
General Fund	$4,469,829	$89,397	$4,380,432
State Special	-0-	0	-0-
Federal & Other	1,235,176	-0-	1,235,176
Total	$5,705,005	$89,397	$5,615,608

Option A: Reduce the general fund by $89,397. If Option A of Issue 1 is selected then applying a 2 percent reduction to the non-operating portion, or $84,225 in this option, would be a duplication.

Option B: Take no action.

MOUNTAIN VIEW SCHOOL

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	64.05	64.05	64.49	64.49	0.69
Personal Service	$1,274,535	$1,329,278	$1,392,081	$1,474,735	10.9
Operating Expense	238,737	300,528	245,003	246,992	(17.8)
Equipment	20,920	40,929	2,475	2,150	(94.7)
Total Expenditures	$1,534,192	$1,670,735	$1,639,559	$1,723,877	3.2
Fund Source					
General Fund	$1,423,512	$1,588,110	$1,571,405	$1,654,597	4.2
Other Funds	-0-	-0-	2,000	2,000	---
Federal and Other	110,680	82,625	66,154	67,280	(18.6)
Total Funds	$1,534,192	$1,670,735	$1,639,559	$1,723,877	3.2

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. 2 Percent Cuts	$(33,092)	-0-

Note: Fiscal 1986 does not include general fund in House Bill 667 of $63,200 for building modifications for a juvenile detention facility, and $187,777 to operate the detention facility.

Mountain View School is responsible for the care, education, and rehabilitation of juvenile girls committed to the school by district courts. The school is budgeted for an average daily population (ADP) of 45 in the 1987 biennium. Through the first six months of fiscal 1986 the school has experienced an average daily population of 53, compared with 48 ADP in fiscal 1985. The fiscal 1986 ADP figure includes 1.4 average daily census of the new 5-bed youth detention center initiated as a result of House Bill 667.

The legislature deleted a 1.0 FTE accounting specialist at the agency's request. The overall increase is made up of pay plan increases of $81,945 and vacancy savings

achieved in fiscal 1985 of $62,392. The decrease in operating expense results from the transfer of $17,308 medical costs to the central office, the reduction of a psychological services contract by $8,919, and the over expenditure by the school of their allocated general fund operating expense budget in fiscal 1985 by $29,296. Equipment for fiscal 1987 includes one hand-held two-way radio costing $750, and a mobile truck two-way radio costing $1,400.

ISSUE 1: REDUCE FISCAL 1987 GENERAL FUND BUDGET BY 2 PERCENT OR $33,092

If the fiscal 1987 budget was reduced 2 percent consistent with the Governor's 2 percent cuts in fiscal 1986, $33,092 of general fund would be saved. The following table reflects the reductions at the first expenditure level.

Table 1
Application of 2 Percent Cuts to Fiscal 1987
Mountain View School

	Fiscal 1987	2% Cuts	Revised Fiscal 1987
Expenditures			
Personal Services	$1,474,735	$28,309	$1,446,426
Operating Expenses	246,992	4,741	242,251
Equipment	2,150	42	2,108
Total	$1,723,877	$33,092	$1,690,785
Funding			
General Fund	$1,654,597	$33,092	$1,621,505
State Special	2,000	-0-	2,000
Federal & Other	67,280	-0-	67,280
Total	$1,723,877	$33,092	$1,690,785

Option A: Reduce the fiscal 1987 general fund $33,092.

Option B: Take no action.

PINE HILLS SCHOOL

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	113.75	113.75	116.97	116.97	3.22
Personal Service	$2,417,154	$2,508,900	$2,570,433	$2,712,405	8.1
Operating Expense	583,938	627,567	624,729	644,122	2.6
Equipment	33,218	16,018	14,629	-0-	
Total Expenditures	$3,034,310	$3,152,485	$3,209,791	$3,356,527	6.5
Fund Source					
General Fund	$2,510,098	$2,567,438	$2,679,246	$2,821,607	9.9
State Special	24,962	24,962	42,053	43,041	72.4
Federal Revenue	499,250	560,085	488,492	491,879	(12.2)
Total Funds	$3,034,310	$3,152,485	$3,209,791	$3,356,527	6.5

ISSUES	Fiscal 1986		Fiscal 1987	
	General Fund	Other Funds	General Fund	Other Funds
1. Interest & Income	$(69,000)	$69,000	$(59,000)	$59,000
2. 2 Percent Cuts	-0-	-0-	$(56,432)	-0-

Pine Hills School is responsible for the care and custody of juvenile boys aged 10 to 21 who have been sentenced to the institution by the courts. Title 53-20-202, MCA, establishes Pine Hills School as a correctional facility to diagnose, care for, train, educate, and rehabilitate children in need of these services. Pine Hills has a capacity of 115 students in five cottages. In fiscal 1984, the average daily population was 88 students with an average length-of-stay of 6.5 months. The average daily population increased to 98 in fiscal 1985, and through the first six months of fiscal 1986 has increased to 112. The 1987 biennium budget is based on an average daily population of 88 students.

The FTE increase results from adding 2.72 FTE teacher aides and 1.0 FTE social worker, funded by ECIA Chapter I funds. These funds were budget amended in fiscal 1985 but appropriated in the 1987 biennium. A .5 FTE custodial worker left vacant in the 1985 biennium was deleted by the legislature.

Operating expenses were reduced as a result of transferring $25,182 of medical costs to the central office medical services pool. The legislature added $4,000 for fire protection and $10,000 for goods purchased for resale in the school's canteen. The balance of the difference is due to inflation.

State special revenue includes alcohol funds, donations, and a canteen fund. Earmarked alcohol revenue totals $29,041, and funds a substance abuse counselor. Donations total $4,000 and the canteen fund totals $10,000. The donations and canteen funds were spent as agency funds in the 1985 biennium, which did not require an appropriation. A legislative audit recommended the establishment of these state special revenue funds.

Federal and other funding includes land grant income, federal school lunch funds, federal boarder reimbursement, and ECIA Chapter I and II funds. The school has land grant income estimated at $275,000 each year of the biennium, and school food of $66,248 in fiscal 1986 and $66,569 in fiscal 1987. Federal boarder revenue is estimated at the current level average daily boarder population of 2.38, with a daily rate of $74. Total federal boarder revenue is $64,284 each year of the biennium. ECIA Chapter I and II total $82,960 in fiscal 1986 and $86,026 in fiscal 1987. The table below shows the school's other funds for fiscal 1985, 1986, and 1987.

Table I
Pine Hills School Other Funds

Description	1985 Actual	1986 Authorized	1987 Authorized	% Change 85 - 87
State Special				
Donations	$ -0-	$ 4,000	$ 4,000	---
Alcohol	24,962	28,053	29,041	16.3
Canteen	-0-	10,000	10,000	---
Federal and Other				
Land Grant Income	351,000	275,000	275,000	(21.6)
School Lunch	75,244	66,248	66,569	(11.5)
Federal Border	64,108	64,284	64,284	0.3
Education Equip. Grant	647	-0-	-0-	---
ECIA Chapter I	67,585	82,060	85,126	26.0
ECIA Chapter II	-0-	900	900	---
Contract Improvement	1,500	-0-	-0-	---
Total	$585,046	$530,545	$534,920	(8.6)

ISSUE 1: REPLACE GENERAL FUND WITH INTEREST AND INCOME EXCESS REVENUE

The school has land grant income estimated at $275,000 for fiscal 1987, while fiscal 1985 actual income was $365,899. Of the excess collected in fiscal 1985, $76,000 was used to reduce fiscal 1985 general fund, and excess collections of $14,899 were carried forward into fiscal 1986. This land grant income is made up of grazing fees, agricultural rentals, oil and gas leases, cabin site leases, and interest income. Through January of 1985 the school had collected $192,993, or 52.7 percent of the total $365,899 collected in fiscal 1985. The school has collected $181,420 through January of 1986 . The revenue collected to date in fiscal 1986 is 6.4 percent lower than at the same date in fiscal 1985. Assuming revenues do not drop further, the school should collect $344,000 in fiscal 1986. According to a State Lands official, agricultural rentals will be down by 25 percent in fiscal 1987. Based on lower agricultural

rentals, total revenue is estimated at $334,000 in fiscal 1987. Table 2 shows the adjustments to general fund, and interest and income.

Table 2
Pine Hills School Interest and Income

	Fiscal 1986			Fiscal 1987		
	Approp.	Adjustment	Adjusted Approp.	Approp.	Adjustment	Adjusted Approp.
General Fund	$2,679,246	$(69,000)	$2,610,246	$2,821,607	$(59,000)	$2,762,607
Interest & Income	275,000	69,000	344,000	275,000	59,000	334,000

Option A: Reduce general fund by $69,000 in fiscal 1986 and $59,000 in fiscal 1987 and replace with revenue from the school's interest and income account.

Option B: Take no action.

ISSUE 2: APPLY 2 PERCENT CUT TO FISCAL 1987 GENERAL FUND

If the fiscal 1987 general fund was cut 2 percent as the Governor did in fiscal 1986, $56,432 would be saved, as shown in Table 3.

Table 3
Application of 2 Percent Cuts to Fiscal 1987
Pine Hills School

Expenditures	Fiscal 1987	2% Cuts	Revised Fiscal 1987
Personal Services	$2,712,405	$45,347	$2,667,058
Operating	644,122	11,085	633,037
Total	$3,356,527	$56,432	$3,300,095
Funding			
General Fund	$2,821,607	$56,432	$2,765,175
State Special	43,041	-0-	43,041
Federal & Other	491,879	-0-	491,879
Total	$3,356,527	$56,432	$3,300,095

Option A: Reduce the fiscal 1987 general fund $56,432.

Option B: Take no action.

MONTANA STATE PRISON

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	332.45	332.45	365.28	404.53	72.08
Personal Service	$ 7,196,088	$ 7,990,128	$ 8,613,375	$ 9,960,665	24.7
Operating Expense	4,006,869	4,324,060	4,598,741	4,781,097	10.6
Equipment	751,075	513,014	772,990	713,850	39.1
Total Expenditures	$11,954,032	$12,827,202	$13,985,106	$15,455,612	20.5
Fund Source					
General Fund	$ 9,029,994	$ 9,820,677	$10,720,771	$12,179,856	24.0
State Special	689,687	745,017	767,586	783,083	5.1
Federal and Other	99,872	82,253	143,918	91,746	11.5
Proprietary	2,134,479	2,179,255	2,352,831	2,400,927	10.2
Total Funds	$11,954,032	$12,827,202	$13,985,106	$15,455,612	20.5

Note: These figures do not include $20,000 of state special revenue appropriated in HB 320 to study overnight family visits and present proposed rules and implementation costs to the 50th Legislature.

The Montana State Prison provides low, high, and maximum security incarceration for Montana's male inmate population. In addition, the prison provides work, education, and training for inmates through the ranch and dairy operation, the Industries Program, and the Industries Training Program. The fiscal 1984 average daily population was 740. The fiscal 1985 average daily population (ADP) was 803 while the ADP for the first nine months of fiscal 1986 is 896. The prison was budgeted for an ADP of 800 inmates for the 1987 biennium. The 48th legislature authorized a major expansion of the prison to ease the overcrowding. A new high security unit and a new maximum security unit with a capacity of 96 each or 192 beds are under construction and are expected to be ready for occupancy in July 1986. The expected completion date is approximately six months behind schedule.

As mentioned earlier, the prison provides work, education, and training through the ranch and dairy operation, industries, and the license plate factory. The ranch and dairy and the prison industries programs are self supporting through the products they produce while providing work and training for the inmates.

Table 1 shows the FTE and funding level by program. The prison budget has six programs: care and custody; the ranch and dairy; the license plate factory; the canteen; the industries program; and industries training.

Table 1
1987 Biennium FTE and Appropriation by Program

Program	Fiscal 1985 FTE	Fiscal 1986 FTE	Fiscal 1986 Funding	Fiscal 1987 FTE	Fiscal 1987 Funding
Care and Custody	300.45	340.53	$10,723,636	379.78	$12,174,775
Ranch and Dairy	18.00	15.75	1,755,146	15.75	1,809,117
Industries	7.00	4.25	401,290	4.25	410,153
Industries Training	5.00	2.75	389,066	2.75	331,634
License Plate Factory	2.00	2.00	355,212	2.00	368,902
Canteen	0.00	0.00	360,756	0.00	361,031
Total Agency	332.45	365.28	$13,985,106	404.53	$15,455,612

Included in the appropriation is the additional staff and operating expenses to operate the expanded prison for half of fiscal 1986 and all of fiscal 1987. There are 39.25 FTE additional staff in fiscal 1986 (reflecting a half year for 78.50 positions) and 78.50 FTE in fiscal 1987. The additional staff were budgeted at $796,026 in fiscal 1986 and $1,598,500 in fiscal 1987. Table 2 shows the expansion staff included in the budget for fiscal 1987. The legislature also added the physician position from the Corrections Medical Program at approximately $77,000 per year, and deleted a .17 FTE mail clerk which was vacant in fiscal 1984. FTE reductions included 1 FTE corrections officer from the ranch and dairy program, 2 FTE teacher positions, 3.25 FTE industries shop supervisors, and 1 FTE industries technician from the industries and industries training programs.

Table 2
Staffing for the Prison Expansion

Program	Position	FTE
Administration	Security Manager	1.00
Support Services	Maintenance Worker	2.00
	Warehouse Manager	1.00
	Canteen Manager	1.00
Treatment Services	Social Worker	3.00
	Psychologist	1.00
	Teacher	1.00
	Librarian	.50
	Secretary	1.00
	Recreation Aide	3.00
	L.P.N.	4.80
	Special Duty Aide	1.00
Security	Lieutenant	1.60
	Sergeant	8.00
	Corrcctional Officers	48.60
Total Additional Staff		78.50

Operating expenses were increased $83,440 per year to allow 60 additional ADP or a total ADP of 800, $36,000 per year for paper and janitorial supplies, $15,000 in fiscal 1986 for a National Institute of Corrections Training Grant, and $105,624 in fiscal 1986 and $197,406 in fiscal 1987 for expenses associated with the prison expansion.

The funding includes state special alcohol earmarked revenue to fund 2 FTE alcohol counselors at $51,618 in fiscal 1986 and $53,150 in fiscal 1987 and federal boarder revenue of $71,138 in fiscal 1986 and $71,850 in fiscal 1987 to house five federal prisoners. Also included in federal revenue is ECIA Chapter I and II funds of $4,099 in each year and federal adult basic education funds of $15,343 in fiscal 1986 and $15,797 in fiscal 1987.

The 1983 legislature appropriated $14,416,000 to expand the prison facilities to ease overcrowding. The prison, as it exists, has a design capacity of 545 inmates.

The expanded facilities were to provide three levels of security to house 737 inmates without "double bunking." However, with the current population averaging 896 inmates, some prisoners will have to be "double bunked." The expanded facilities are expected to be ready for occupancy by July of 1986.

Due to the delay in opening the prison expansion, some savings will be realized. The following expansion staff have already been hired: 1.6 FTE nurses, a physician's assistant, a maintenance worker, a .2 FTE dental assistant, and 20 correctional officers for a total of 23.8 FTE positions. The remaining expansion staff, 54.7 positions, are expected to be phased in prior to the opening of 1) the new high security support facility in May, and 2) the new housing units which will open in early July.

Based on agency projections as shown in Table 3, the Prison will spend $545,258 of the fiscal 1986 expansion funds on expansion staff and $104,045 on current level personal services deficit. An additional $107,290 of expansion funds will be spent on expansion operating costs while the current level budget is projected to have a $30,055 surplus. The total projected balance at fiscal year-end 1986 is $157,929.

Table 3
Expected Expansion Appropriation Savings - Fiscal 1986

	Personal Services	Operating Expense	Total
Appropriation	$796,026	$105,624	$901,650
Less 2 Percent Cuts	15,171	2,012	17,183
Balance	$780,855	$103,612	$884,467
Expenditures			
Current Level Budget	$104,045	$(30,055)	$ 73,990
Expansion	545,258	107,290	652,548
Total Projected Expenditures	$649,303	$ 77,235	$726,538
Appropriation Balance	$131,552	$ 26,377	$157,929

Because of the steady increase in the prison population, no fiscal 1987 reduction issues are included for the prison.

SWAN RIVER FOREST CAMP

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	26.33	26.33	26.83	26.83	1.90
Personal Service	$608,660	$649,106	$656,984	$693,521	6.8
Operating Expense	239,667	239,256	282,620	290,725	21.5
Equipment	11,339	8,042	21,932	3,650	54.6
Total Expenditures	$859,666	$896,404	$961,536	$987,896	10.2
Fund Source					
General Fund	$787,552	$807,462	$849,728	$872,725	8.1
State Special	39,673	49,082	74,283	75,721	54.3
Federal and Other	32,441	39,860	37,525	39,450	(1.0)
Total Funds	$859,666	$896,404	$961,536	$987,896	10.2

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. 2 Percent Cuts	$(17,455)	-0-

The Swan River Forest Camp is a minimum security work camp for inmates transferred from the state prison who are between the ages of 18 and 26. The inmates work with the Forestry Division of the Department of State Lands and are involved in several forestry programs such as thinning, seeding, and planting trees, as well as campground and recreational area maintenance.

The facility has an overall capacity of 54 inmates. In fiscal 1984, the camp experienced an average daily population (ADP) of 49, while the fiscal 1985 ADP was 47. The ADP has been 51 for the first six months of fiscal 1986. The camp was budgeted for an average daily population of 49 for the 1987 biennium.

The increase in personal services from fiscal 1985 to fiscal 1987 results from pay plan costs of $35,300, and 1 percent vacancy savings realized in fiscal 1987. Operating expenses increase $51,469 as a result of adding $22,523 in goods purchased for resale to allow sufficient authority in the canteen fund. The canteen, which sells incidental items to the inmates, was appropriated as a result of a legislative audit recommendation. The balance of the increase is inflation of $30,000. Equipment included in the OPI vocational education grant is $3,650 in fiscal 1987.

ISSUE 1: APPLY A 2 PERCENT CUT TO FISCAL 1987 GENERAL FUND

If the fiscal 1987 general fund appropriation is reduced by 2 percent a savings of $17,455 would be realized. This reduction would be consistent with the governor's 2 percent cut to fiscal 1986. The following table shows the first level adjustments to Swan River Forest Camp in fiscal 1987.

Table 1
Application of 2 Percent Cuts to Fiscal 1987
Swan River Forest Camp

Expenditures	Fiscal 1987	2% Cuts	Revised Fiscal 1987
Personal Services	$693,521	$13,306	$680,215
Operating Expenses	290,725	4,149	286,576
Equipment	3,650	-0-	3,650
Total	$987,896	$17,455	$970,441
Funding			
General Fund	$872,725	$17,455	$855,270
State Special	75,721	-0-	75,721
Federal & Other	39,450	-0-	39,450
Total	$987,896	$17,455	$970,441

Option A: Reduce the fiscal 1987 general fund $17,455.

Option B: Take no action.

MONTANA DEVELOPMENTAL CENTER

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	443.40	443.40	440.40	440.15	(3.25)
Personal Service	$ 8,705,134	$ 8,988,450	$ 9,136,818	$ 9,667,325	7.6
Operating Expense	1,645,089	1,608,971	1,730,281	1,761,645	9.5
Equipment	86,120	40,127	17,000	-0-	---
Total Expenditures	$10,436,343	$10,637,548	$10,884,099	$11,428,970	7.4
Fund Source					
General Fund	$10,376,227	$10,578,769	$10,797,710	$11,363,044	7.4
State Special	7,548	15,874	33,844	20,324	28.0
Federal & Other	52,568	42,905	52,545	45,602	6.3
Total Funds	$10,436,343	$10,637,548	$10,884,099	$11,428,970	7.4

The Montana Developmental Center, formerly Boulder River School and Hospital, provides services to mentally retarded children and adults. The center served an average daily population of 219 residents in fiscal 1982, 221 in fiscal 1983, 202 in fiscal 1984, and 203 in fiscal 1985. Twenty-five residents were placed out of the center in fiscal 1984. However, readmissions of some residents previously placed are causing the average daily population to increase to the fiscal 1985 level of 203. The average daily population was budgeted at 204 for the 1987 biennium. Two FTE physician positions, 1 FTE occupational therapist position, and a .25 FTE ECIA Chapter I teacher's aide position were deleted from the fiscal 1987 budget. These reductions are offset by pay plan increases of $522,270 and vacancy savings for an overall increase of $678,875 over the fiscal 1985 personal services.

The operating expense increase of $152,674 results from inflation of $111,602, additional expenditure authority for donated funds of $12,480, and an increase of 4 cents per meal or $12,857 to adjust for the loss of certain USDA commodities. Profes-

sional contracts were decreased $10,275 as a result of deleting the physical therapy contract. The balance of the difference, $26,000 results from operating savings generated in fiscal 1985 compared with the budget.

The Montana Developmental Center other funds consists of: (1) state special donations and canteen funds; (2) federal ECIA Chapter I and II; and (3) school lunch funds. Donations are $26,000 in fiscal 1986 and $12,480 in fiscal 1987, while canteen funds are $7,844 each year. Federal school lunch is $14,277 in fiscal 1986 and $10,885 in fiscal 1987. ECIA Chapter I and II funds are $38,268 and $34,717 in fiscal 1986 and 1987, respectively. Donated funds were spent out of an agency fund in previous years.

On January 13-17, 1986 staff from the Division of Health Standards and Quality, Health Care Financing Administration, conducted a survey of the Montana Developmental Center. Based upon the survey findings, it was determined that the Center was not in compliance with a number of standards, including the requirement that active treatment be provided to all clients. Immediate corrective action is essential, according to HCFA, if the center's approval is to continue under the Medicaid Program. The loss of medicaid certification would result in a projected loss of federal medicaid revenue to the general fund of $5,638,000 in fiscal 1987. Of concern are the deficiencies pertaining to the following standards for intermediate care facilities for the mentally retarded, (ICFMR):

Administrative Policies and Procedures
Admission and Release
Personnel Policies
Resident Living
Professional and Special Programs and Services
Dental Services
Training and Habilitation Services
Food and Nutrition Services
Medical Services
Pharmacy Services
Physical and Occupational Therapy Services
Psychological Services
Speech Pathology and Audiological Services
Safety and Sanitation

A plan of correction for each deficiency noted in the survey has been submitted by the Department of Institutions and the center. The major impact of the correction plan is the addition of staff in sufficient numbers and in the specific disciplines to correct the stated deficiencies. The major disciplines affected are; nursing, occupational therapy, physical therapy, psychology, recreation, speech, social work, and qualified mental retardation professionals (QMRP). The department's plan of correction adds 16 FTE and states the department will make every effort to fill the vacant positions shown in table 1:

Table 1
Staff Added to Meet HCFA Standards - Fiscal 1987

FTE	PROFESSIONAL STAFF
4.0	Qualified Mental Retardation Professionals
1.0	Psychologist
2.0	Registered Nurses
2.0	Occupational Therapy Aides
2.0	Recreation Therapists
2.0	Social Workers
3.0	Habilitation Training Specialists
16.0	Total Staff Added
	Existing Vacancy Positions
1.0	Speech Pathologist
2.0	Physical Therapists
1.0	Occupational Therapist
4.0	Existing Vacant Positions to be filled

The cost of the 16 FTE additional positions is estimated to be $426,012 in fiscal 1987. Funding for these positions does not currently exist within the center's budget. Therefore, the department will have to use the transfer authority provided in House Bill 500 which allows transfers within the Mental Health Division of the Department of Institutions in excess of 5 percent of the total appropriation authority of each line item. Those programs within the mental health division are: Montana

Development Center, Eastmont Training Center, Center for the Aged, Montana State Hospital, Veterans Home, Montana Youth Treatment Center, and the Central Office Division Administration. If there are not sufficient funds within the mental health division for these additional 16 FTE, the department will have to request a supplemental appropriation.

CENTER FOR THE AGED

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	102.93	102.93	100.24	100.24	12.61
Personal Service	$1,889,249	$1,998,076	$1,956,770	$2,070,597	3.6
Operating Expense	519,118	522,025	556,359	552,930	5.9
Equipment	17,168	27,856	7,647	622	(97.8)
Total Expenditures	$2,425,535	$2,547,957	$2,520,776	$2,624,149	3.0
Fund Source					
General Fund	$2,415,501	$2,544,193	$2,513,390	$2,616,414	2.8
State Special	6,510	3,752	7,386	7,735	106.2
Federal Revenue	3,524	-0-	-0-	-0-	0.0
Agency Fund	-0-	12	-0-	-0-	---
Total Funds	$2,425,535	$2,547,957	$2,520,776	$2,624,149	3.0

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. 2 Percent Cuts	$(52,328)	-0-

Center for the Aged provides long-term services to geriatric residents transferred from Montana State Hospital, and to referrals from Montana community mental health centers. The budgeted population for the 1987 biennium is 175, compared with a budgeted population of 190 in the 1985 biennium. The average daily population in the first six months of fiscal 1986 has been 173.

Between fiscal 1985 and 1987 personal services were reduced 2.69 FTE to maintain a staffing ratio of 1 staff to 3.6 residents based on an average daily population of 175. Staff deleted are: (1) .5 FTE registered nurse, (2) .3 FTE licensed practical nurse, and (3) 1.89 FTE psychiatric aide. The reduction amounts

to $49,847 in fiscal 1987. With the addition of the pay plan totaling $111,612 and the effect of vacancy savings in 1985 of $15,430, the total increase in personal services from fiscal 1985 to fiscal 1987 amounts to $72,521.

Operating expenses were increased $51,872 due to inflationary increases, but reduced $18,500 for contracted laundry due to the upgrade of the center's laundry facilities. Other decreases made were due to adjustments for an average daily population of 175.

ISSUE 1: FISCAL 1987 GENERAL FUND CUTS OF 2 PERCENT

If general fund were reduced by 2 percent in fiscal 1987 as the Governor did in fiscal 1986, $52,328 would be saved. The following table shows the first level expenditure reduction to the fiscal 1987 appropriation.

Table 1
Application of 2 Percent Cuts to Fiscal 1987
Center for the Aged

	Fiscal 1987	2% Cuts	Revised Fiscal 1987
Expenditures			
Personal Services	$2,070,597	$41,412	$2,029,185
Operating Expenses	552,930	10,904	542,026
Equipment	622	12	610
Total	$2,624,149	$52,328	$2,571,821
Funding			
General Fund	$2,616,414	$52,328	$2,564,086
State Special	7,735	-0-	7,735
Total	$2,624,149	$52,328	$2,571,821

Option A: Reduce the fiscal 1987 general fund $52,328.

Option B: Take no action.

EASTMONT TRAINING CENTER

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	95.02	94.02	93.02	93.02	(1.06)
Personal Service	$1,657,917	$1,731,182	$1,737,338	$1,840,691	6.3
Operating Expense	281,956	302,996	340,141	347,554	14.7
Equipment	20,991	11,106	4,000	559	(95.0)
Total Expenditures	$1,960,864	$2,045,284	$2,081,479	$2,188,804	7.0
Fund Source					
General Fund	$1,934,656	$2,032,593	$2,078,479	$2,185,804	7.5
State Special	-0-	-0-	3,000	3,000	---
Federal Revenue	24,336	12,066	-0-	-0-	---
Other Funds	1,872	625	-0-	-0-	---
Total Funds	$1,960,864	$2,045,284	$2,081,479	$2,188,804	7.0

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. 2 Percent Cuts	$(43,716)	-0-

Eastmont Training Center is a 55-bed intermediate care facility for mentally retarded adults and children. The center provides care, treatment, and education services to mentally retarded residents of the state under the authority of Section 50-20-204, MCA. The center is budgeted for an average daily population of 53. The center has averaged a daily census of 53 during the first six months of fiscal 1987.

The increase from fiscal 1985 to fiscal 1987 results from pay plan increases of $104,907 and vacancy savings of $22,460 achieved in fiscal 1985, offset by 1.0 FTE laundry worker deleted as a result of sending all the center's laundry to a private contractor. The increase in operating expenses results from increasing the laundry contract $19,533 in fiscal 1987 to allow the center to send all laundry to a private contractor. The balance is due to inflation. A work coral costing $559 for the training department was the equipment approved in fiscal 1987.

Federal medicaid officials conducted a survey of Eastmont on August 27-29, 1986. The survey included a review of resident treatment programming, building conditions in resident living quarters, and facility conditions in other areas used by residents. Numerous deficiencies were found in Cottage #2, a 15-bed living unit, and in the education building. The decertification of Cottage #2 has resulted in a revenue loss to the general fund of approximately $20,000 per month and general fund savings of approximately $6,600 in the Department of Social and Rehabilitation Services medicaid budget. Efforts are underway to correct the deficiencies which resulted in Eastmont's Cottage #2 being recertified in late February.

ISSUE 1: APPLY 2 PERCENT CUTS TO FISCAL 1987

If 2 percent cuts are applied to the general fund in fiscal 1987 as the Governor did in fiscal 1986, general fund savings will be $43,716. The following table shows the first level expenditure adjustments to the fiscal 1987 appropriation.

Table 1
Application of 2 Percent Cuts to Fiscal 1987
Eastmont Training Center

	Fiscal 1987	2% Cuts	Revised Fiscal 1987
Expenditures			
Personal Services	$1,840,691	$36,814	$1,803,877
Operating Expenses	347,554	6,891	340,663
Equipment	559	11	548
Total	$2,188,804	$43,716	$2,145,088
Funding			
General Fund	$2,185,804	$43,716	$2,142,088
State Special	3,000	-0-	3,000
Total	$2,188,804	$43,716	$2,145,088

Option A: Reduce the fiscal 1987 general fund by $43,716.

Option B: Take no action.

VETERAN'S HOME

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	65.58	74.00	74.50	74.50	0.68
Personal Service	$1,160,605	$1,293,527	$1,371,286	$1,441,758	11.5
Operating Expense	348,588	440,442	540,786	427,755	18.8
Equipment	22,099	12,322	-0-	12,000	(2.6)
Total Expenditures	$1,531,292	$1,746,291	$1,912,072	$1,981,513	13.5
Fund Source					
General Fund	$ 556,413	$ 426,176	$ 507,293	$ 567,234	33.1
State Special	-0-	-0-	20,764	20,764	---
Federal and Other	974,879	1,320,115	1,384,015	1,393,515	5.6
Total Funds	$1,531,292	$1,746,291	$1,912,072	$1,981,513	13.5

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. 2 Percent Cuts	$(11,345)	-0-

The Montana Veteran's Home provides domiciliary and nursing care to honorably discharged veterans and, if space is available, to veteran's spouses. An addition to the home was completed in fiscal 1984 increasing the bed capacity to 151, a net increase of 36. Eighty-five of the 151 beds are domiciliary, while 66 are nursing care beds. The average daily population was 126 in fiscal 1985. The home is budgeted for an average population of 136 for the 1987 biennium, which is an occupancy rate of 90 percent. The home has averaged 127 for the first six months of fiscal 1986, or an occupancy rate of 84 percent.

A .50 FTE pharmacist costing $13,170 was added in the 1987 biennium to manage the pharmacy program as a result of the Veteran's Administration discontinuing this

service. The pay plan for fiscal 1987 amounts to $90,515. The balance of the difference from fiscal 1985 to fiscal 1987 is vacancy savings experienced in fiscal 1985.

The major increase in operating expenses, other than inflation of $53,932, resulted from the addition of $20,764 state special revenue for a canteen. This addition is the result of a legislative audit recommendation. The canteen fund is for candy, pop, and incidental items for the residents.

The equipment of $12,000 is to replace a 15-year old station wagon.

The Montana Veterans' Home has five sources of funding: general fund; Veterans' Administration per diem reimbursement; private third party reimbursement; land grant funds; and State Special revenue canteen funds. The Veterans' Administration per diem rate has increased from $12.10 per day for nursing home care and $6.35 for domiciliary care in fiscal 1984 to $17.05 and $7.30, respectively, in fiscal 1986 and 1987.

ISSUE 1: TWO PERCENT CUT

If a 2 percent general fund cut was applied in fiscal 1987 as the Governor did in fiscal 1986, $11,345 would be saved. Table 1 reflects the first level expenditure reductions to the Veteran's Home budget.

Table 1
Application of 2 Percent Cuts to Fiscal 1987
Veteran's Home

Expenditures	Fiscal 1987	2% Cuts	Revised Fiscal 1987
Personal Services	$1,441,758	$ 8,168	$1,433,590
Operating Expenses	527,755	3,177	524,578
Equipment	12,000	-0-	12,000
Total	$1,981,513	$11,345	$1,970,168
Funding			
General Fund	$ 567,234	$11,345	$ 555,889
State Special	20,764	-0-	20,764
Federal & Other	1,393,515	-0-	1,393,515
Total	$1,981,513	$11,345	$1,970,168

Option A: Reduce the fiscal 1987 general fund $11,345.

Option B: Take no action.

MONTANA STATE HOSPITAL

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	754.60	707.20	701.20	701.20	(6.00)
Personal Service	$16,493,283	$16,961,001	$16,405,937	$17,292,982	2.0
Operating Expense	3,047,541	3,121,240	3,049,148	3,143,575	0.7
Equipment	24,062	135,267	110,500	-0-	---
Total Expenditures	$19,564,886	$20,217,508	$19,565,585	$20,436,557	1.1
Fund Source					
General Fund	$17,876,128	$18,485,890	$17,836,814	$18,675,395	1.0
State Special	1,634,829	1,692,787	1,723,668	1,756,059	3.7
Federal & Other	53,929	36,774	5,103	5,103	(86.1)
Agency Fund	-0-	2,057	-0-	-0-	---
Total Funds	$19,564,886	$20,217,508	$19,565,585	$20,436,557	1.1

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. Switchboard Operators	$ (78,834)	$(6,897)
2. 2 Percent Cuts	$(373,506)	-0-

Montana State Hospital provides evaluation and psychiatric treatment on the Warm Springs campus for adults who are mentally ill. In-patient alcohol and drug treatment programs as well as acute and intermediate care medical services for the mentally ill are offered at the Galen campus.

The Warm Springs campus was appropriated for an average daily population of 313 during the 1987 biennium while the Galen campus was budgeted for an average daily population of 105 acute and intermediate care patients, 64 alcohol patients, and 11 drug patients. The Children's Treatment Unit located at Warm Springs campus was closed April 30, 1985 with the transfer of 24 adolescents to the Montana Youth

Treatment Center in Billings. The staff and operating costs of the Children's Unit were reduced from the current level budget.

The Warm Springs campus had an average daily population of 333 in fiscal 1985 while the first half of fiscal 1986 the average daily population has decreased to 302. The Galen campus had a combined average daily population of 170 in fiscal 1985 and 167 in the first half of fiscal 1986.

The fiscal 1985 authorized FTE is reflected at 707.2, however, due to delays in opening the new Montana Youth Treatment Center until April 30, 1985, the actual FTE was 750.2. The Department was authorized to transfer funds from the fiscal 1985 youth treatment center budget to the children's unit to maintain the 43.0 FTE staff of the unit and cover the costs of operating until the move to Billings could be completed.

The increase in personal services from fiscal 1985 to fiscal 1987 is the net affect of the following: (1) the deletion of 43 FTE as a result of the closing the Children's Unit, (2) the deletion of 6.0 FTE other staff, (see table 1), (3) adding $861,178 of pay plan increases for fiscal 1987, and (4) the hospital realized $438,300 of vacancy savings in fiscal 1985.

The canteen had 2.0 FTE store managers and a .6 FTE cook. The legislature authorized 1.0 FTE store manager to be funded with general fund and the other FTE were deleted since the canteen cannot generate the funding to support them. A .5 FTE switchboard operator was deleted when the Galen switchboard was shut down.

Based on direct care ratios established by previous legislatures and on the anticipated average daily population of 313 at Warm Springs and 105 at Galen, 3.9 FTE direct care positions were deleted.

Table 1
Montana State Hospital Staff Changes - 1987 Biennium

Position	- FTE Changes -	
Children's Unit Deletions		
Unit Supervisor	1.0	
Unit Clerk	1.0	
Psychologists	2.0	
Social Workers	2.0	
Recreation Therapist	2.0	
Music Therapist	1.0	
Rehabilitation Counselor	1.0	
Teacher Aide	2.0	
Teacher	1.0	
Registered Nurses	3.0	
Licensed Practical Nurses	8.0	
Aides	19.0	
Total Children's Unit Deletions		43.0
Switchboard Operator	.5	
Store Manager (Canteen)	1.0	
Cook II (Canteen)	.6	
Total Other Deletions		2.1
Direct Care Adjustment		
Add: Registered Nurses	+1.5	
Delete: Licensed Practical Nurse	-2.6	
Aides	-2.8	
Total Direct Care Changes		3.9
Total Deletions		49.0

Operating costs after adjusting for inflation of $204,622 in fiscal 1987, decrease from the 1985 level by $182,287. This decrease results from; (1) moving the Children's Unit which reduces expenditures $101,296 from the fiscal 1985 level, (2) doing their own garbage removal and eliminating the garbage contract which cost approximately $24,000 in fiscal 1985, and (3) transferring the legal services contract of approximately $29,000 to the Governor's Office. Other minor decreases amount to less than 1 percent.

The hospital's 1987 biennial equipment appropriation of $130,000 was reduced by 15 percent in the Governor's fiscal 1986 cuts to $110,500.

ISSUE 1: DELETE CONVERTED SWITCHBOARD OPERATOR POSITIONS

The hospital installed a new telephone system which eliminated one switchboard at Galen. The 5 FTE Galen switchboard operators have been converted to other positions as follows: 1.0 FTE switchboard operator for relief at the Warm Springs switchboard, 1.5 FTE receptionists for Galen's main entrance, 1.0 FTE mechanic, 1.0 FTE food service worker, and a .5 FTE was deleted.

Table 2
Galen Switchboard FTE Converted

FTE Change	FTE	COST
Deleted	.5	-0-
Converted		
Warm Springs Switchboard	1.0	$16,225
Galen Receptionist	1.5	29,721
Mechanic	1.0	24,593
Food Service Worker	1.0	15,142
Total	5.0	$85,681

These converted positions are all newly created positions. The department did not include these positions in their 1987 biennium modified request for Montana State Hospital. The Department requested the positions be converted when the fiscal analyst raised the issue to delete the switchboard operators in the 1987 biennium analysis. The institution has now converted a groundskeeper position, which was their original request for keeping these unneeded switchboard positions, to the food service worker as reflected above.

Option A: Delete the 4.5 FTE positions for a savings of $78,834 general fund and $6,847 alcohol earmarked funds.

Option B: Take no action.

ISSUE 2: REDUCE THE FISCAL 1987 GENERAL FUND 2 PERCENT

If a reduction of 2 percent to the fiscal 1987 budget were made, general fund of $373,506 would be saved. (The Governor's 2 percent cut in fiscal 1986 saved $364,017.) The following table shows the first level adjustments to the Montana State Hospital budget.

Table 3
Application of 2 Percent Cuts to Fiscal 1987
Montana State Hospital

Expenditure	Fiscal 1987	2% Cuts	Revised Fiscal 1987
Personal Service	$17,292,982	$336,223	$16,956,759
Operating	3,143,575	37,283	3,106,292
Total	$20,436,557	$373,506	$20,063,051
Funding			
General Fund	$18,675,295	$373,506	$18,301,789
State Special	1,756,059	-0-	1,756,059
Federal and Other	5,103	-0-	5,103
Total	$20,436,457	$373,506	$20,062,951

The hospital achieved the fiscal 1986 2 percent cuts in personal services primarily due to 4 of the 11 physician positions being vacant as well as other treatment staff vacancies. If these cuts are implemented, the hospital will be required to hold some of these positions open until the required savings are met or some position reductions will need to be made.

Option A: Reduce the fiscal 1985 general fund by $373,506.

Option B: If Option A of Issue 1 is accepted then the amount of the cut in Issue 2 should be adjusted accordingly. This would mean a total reduction of $294,672 general fund under this issue.

Option C: Take no action.

MONTANA YOUTH TREATMENT CENTER

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	0.00	109.43	94.52	112.26	2.59
Personal Service	$-0-	$324,346	$1,814,501	$2,255,759	595.5
Operating Expense	-0-	288,361	336,687	399,326	38.5
Equipment	-0-	230,828	-0-	-0-	---
Total Expenditures	$-0-	$843,535	$2,151,188	$2,655,085	214.8
Fund Source					
General Fund	$-0-	$843,535	$2,093,010	$2,585,465	206.5
State Special	-0-	-0-	28,065	28,065	---
Federal Revenue	-0-	-0-	30,113	41,555	---
Total Funds	$-0-	$843,535	$2,151,188	$2,655,085	214.8

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. 2 Percent Cuts	$(51,709)	-0-

The Montana Youth Treatment Center is a 60-bed psychiatric hospital for the treatment of seriously emotionally disturbed youth between the ages of 12 and 18. No youth may be admitted to the center unless determined to be seriously mentally ill pursuant to Section 53-21-114 through 53-21-127, MCA, which outlines the commitment procedure. This is to ensure that no youth is inappropriately placed at the Montana Youth Treatment Center. The center opened April 30, 1985 with the transfer of 24 youth from the Children's Unit in Warm Springs. The center was budgeted for an average daily population of 40 youth in fiscal 1986 and 55 youth in fiscal 1987. The center has averaged 37 youth for the first half of fiscal 1986.

Fiscal 1985 reflects two months operations and the costs associated with the center's startup, while fiscal 1987 is budgeted for full occupancy of 55 residents.

Medicaid Survey

The center was expected to be certified for medicaid reimbursement early in fiscal 1986. The revenue to the general fund was projected at $1,465,000 in fiscal 1986 and $1,758,000 in fiscal 1987. However, the federal medicaid certification survey teams have twice denied certification, once in July 1985 and again in December 1985. Therefore, no revenue has been received. The survey teams have cited staff deficiencies in the following areas:

1. Psychiatrists, one for every 20 residents. The center currently has one full-time contract psychiatrist and one part-time for eight hours per week.
2. Registered nurses. The survey team will not indicate the number required for certification.
3. Licenced practical nurses. Again, the survey team will not indicate the number required.
4. Social workers and psychologists. The additional FTE required are not indicated.

The center is currently re-evaluating their staffing patterns in order to try to determine the total in each discipline required for certification.

ISSUE 1: 2 PERCENT REDUCTION IN GENERAL FUND APPROPRIATION

If the general fund was reduced by 2 percent in fiscal 1987 as per the Governor's cuts in fiscal 1986, $51,709 would be saved. The following table shows the first level expenditure adjustments for the fiscal 1987 appropriation.

Table 1
Application of 2 Percent Cuts to Fiscal 1987
Montana Youth Treatment Center

	Fiscal 1987	2% Cuts	Revised Fiscal 1987
Expenditures			
Personal Services	$2,255,759	$45,042	$2,210,717
Operating	399,326	6,667	392,659
Equipment	-0-	-0-	-0-
Total	$2,655,085	$51,709	$2,603,376
Funding			
General Fund	$2,585,465	$51,709	$2,533,756
State Special	28,065	-0-	28,065
Federal & Other	41,555	-0-	41,555
Total	$2,655,085	$51,709	$2,603,376

Option A: Reduce the fiscal 1987 general fund by $51,709.

Option B: Take no action.

BOARD OF PARDONS

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	4.00	4.00	4.00	4.00	0.00
Personal Service	$114,977	$119,993	$126,681	$133,488	11.3
Operating Expense	32,213	27,806	39,570	38,737	39.3
Equipment	662	2,149	-0-	-0-	---
Total Expenditures	$147,852	$149,948	$166,251	$172,225	14.9
Fund Source					
General Fund	$147,852	$149,948	$166,251	$172,225	14.9

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. 2 Percent Cuts	$(3,445)	-0-

The Board of Pardons oversees Montana's parole and furlough programs. The board consists of four members appointed by the Governor with a support staff of 4.0 FTE. The board conducts hearings at the prison, Swan River Forest Camp, and the five pre-release centers. The board hears cases at the prison and Swan River Forest Camp two days each month and the pre-release centers four and one-half days each month. The board was budgeted for 444 board member hearing and reading days per year.

Expenditures increase 14.9 percent from fiscal 1985 to 1987. Personal services have been increased $6,044 for the pay plan and $7,700 for an increase of 38 workdays for board member hearings. Operating costs were increased $5,087 to allow for up to five out-of-state parole hearing trips and for the additional travel required

to conduct hearings at all five of the pre-release centers. The balance of the increase from fiscal 1985 to fiscal 1987 is due to inflation.

ISSUE 1. 2 PERCENT CUT.

The governor applied a 2 percent cut in fiscal 1986. Table 1 shows the first level adjustments if the 2 percent cut were applied in fiscal 1987.

Table 1
Application of 2 Percent Cuts to Fiscal 1987
Board of Pardons

Expenditures	Fiscal 1987	2% Cuts	Revised Fiscal 1987
Personal Services	$133,488	$2,707	$130,781
Operating	38,737	738	37,999
Equipment	-0-	-0-	-0-
Total	$172,225	$3,445	$168,780
Funding			
General Fund	$172,225	$3,445	$168,780

Option A: Reduce the 1987 general fund $3,445.

Option B: Take no action.

EDUCATION

	Gen. Fund % Cut	Fiscal 1987 General Fund	Other Funds	Total
Governor's Issues				
Across the Board Cuts				
Board of Public Education	5.0	$ 5,196	$ -0-	$ 5,196
Fire Services Training School	5.3	12,227	-0-	12,227
Montana School for Deaf & Blind	5.0	135,549	-0-	135,549
OPI - State Administration	4.7	112,963	45,729	158,692
OPI - Dist. to Public Schools	5.0	1,789,637	-0-	1,789,637
Billings Vo-Tech	8.3	66,222	-0-	66,222
Butte Vo-Tech	6.5	50,061	-0-	50,061
Great Falls Vo-Tech	7.0	54,588	-0-	54,588
Helena Vo-Tech	6.3	81,588	-0-	81,588
Missoula Vo-Tech	7.6	65,423	-0-	65,423
Montana Arts Council	5.0	5,815	-0-	5,815
Montana Historical Society	5.0	55,662	-0-	55,662
Montana State Library	5.0	27,204	22,309	49,513
TOTAL GOVERNOR'S CUTS		$2,462,135	$ 68,038	$2,530,173
LFA Policy Options				
Board of Public Ed. Legal Costs		$ (7,525)	$ -0-	$ (7,525)
Eliminate Fire Services Training School		238,541	-0-	238,541
Montana School for the Deaf and Blind				
1. Pre-School Teachers		42,320	-0-	42,320
2. Reclassified Positions		71,000	-0-	71,000
3. Audiological Services		187,566	-0-	187,566
Office of Public Instruction				
1. Delete Vo-Ed Curriculum Specialist		32,221	-0-	32,221
2. Delete AV Library Equipment		29,228	-0-	29,228
3. 2 Percent Reduction		50,130	-0-	50,130
4. Reduce Special Ed. State Grants		576,035	-0-	576,035
5. Eliminate Secondary Vo-Ed Grants		480,000	-0-	480,000
6. Vo-Tech Centers Decreased Enrollment		122,655	50,405	173,060
7. Vo-Tech Centers Educ. Trust Interest		115,467	(115,467)	-0-
Montana Arts Council				
1. Eliminate Community Grants		20,000	-0-	20,000
2. Decreased Operating Expense		5,815	-0-	5,815
Montana Historical Society				
1. Eliminate State Support for Montana Mag.		41,809	(41,809)	-0-
2. Indirect Costs		13,233	(13,233)	-0-
3. Eliminate Capitol Tours		28,168	-0-	28,168
4. 2 Percent Reduction		23,081	-0-	23,081
Montana State Library Commission				
1. Reduce Book Purchases		35,451	-0-	35,451
2. Cut 1 FTE Librarian		22,731	-0-	22,731
3. Reduce Institutional Services		7,502	-0-	7,502
4. Film Service Contract		11,572	-0-	11,572
TOTAL LFA OPTIONS		$2,147,000	$(120,104)	$2,026,896
COMBINED GOV'S CUTS AND LFA OPTIONS		$4,609,135	$ (52,066)	$4,557,069
LESS: Duplicated Cuts		(964,233)	-0-	(964,233)
TOTAL UNDUPLICATED CUTS		$3,644,902	$ (52,066)	$3,592,836

BOARD OF PUBLIC EDUCATION

Budget Items	Fiscal 1987 House Bill 500	Fiscal 1987 Governor's Budget	Difference
F.T.E.	2.0	2.0	0.00
Personal Service	$ 66,030	$66,030	-0-
Operating Expense	37,903	32,707	$(5,196)
Total Expenditures	$103,933	$98,737	$(5,196)
General Fund	$103,933	$98,737	$(5,196)

ISSUES IN GOVERNOR'S BUDGET	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
Gov. 1. Governor's 5 Percent Cut	$(5,196)	-0-

ISSUE GOV. 1: 5 PERCENT CUT

The Board of Public Education is decreasing operating expenses $5,196. Included in this reduction is the elimination of membership in the National Association of State Boards of Education, and a $1,596 reduction in out-of-state travel, which leaves $13,941 in travel for the board.

BOARD OF PUBLIC EDUCATION

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	2.00	2.00	2.00	2.00	0.00
Personal Service	$59,612	$ 64,750	$ 66,662	$ 69,305	7.0
Operating Expense	37,941	36,934	37,206	37,903	2.6
Equipment	197	-0-	2,500	-0-	---
Total Expenditures	$97,750	$101,684	$106,368	$107,208	5.4
Fund Source					
General Fund	$97,750	$101,684	$106,368	$107,208	5.4
Total Funds	$97,750	$101,684	$106,368	$107,208	5.4

ISSUES	Fiscal 1986		Fiscal 1987	
	General Fund	Other Funds	General Fund	Other Funds
1. Legal Costs				
Option A.	$7,525	-0-	?	-0-
Option B.	$5,775	-0-	?	-0-

The Board of Public Education was created by Article X, Section 9 of the 1972 Montana Constitution. The board, which consists of seven members appointed by the Governor and confirmed by the Senate, is responsible for exercising general supervision over the public school system. In addition, the board is designated by statute as the governing board of the Montana School for the Deaf and Blind and the Montana Fire Services Training School.

Personal services increase 7.0 percent in fiscal 1987 over the fiscal 1985 level due to an executive secretary promotion and pay plan increases. Operating costs increase 2.6 percent to allow the board to contract for legal research.

ISSUE 1: LEGAL COSTS OF LAWSUITS

The Board of Public Education received $2,550 in each year of the 1987 biennium

to contract for legal research. Two lawsuits have impacted the board's legal costs, the Foundation lawsuit and the Bartmess lawsuit. The Foundation lawsuit raises the issues of equal education opportunity level of funding and alleged tax disparity. The Bartmess lawsuit was prompted by the Helena School districts utilization of a minimum grade point average (2.0) as a prerequisite to participating in extra-curricular activities. Plaintiffs contend that extra-curricular activities are a fundamental right under the Montana constitution and that the Helena school district denied that fundamental right. The issues of local control and equality of educational opportunity are raised. The Board of Public Education chose to be involved with the Bartmess case because of its belief that the lawsuit is critical to the Foundation lawsuit to which the board is a defendant.

In March 1986, the board requested a supplemental of $7,525 to cover the additional legal fees associated with these lawsuits in fiscal 1986. Of this total, $5,789 is for the Foundation lawsuit and $919 is for the Bartmess lawsuit. All costs are for attorney fees of $80 per hour. The supplemental request also contains $818 for anticipated legal fees associated with the lawsuits between April and June 30, 1986.

The appropriation for fiscal 1986 includes $2,550 for legal fees. As of April 4, 1986, $800 has been expended for agency legal services, leaving a balance of $1,750. If this balance were used by the board to help cover costs associated with the Foundation and Bartmess lawsuits, only $5,775 additional funds would be needed for legal costs in fiscal 1986.

The Board of Public Education projects that further legal services for the Foundation and Bartmess lawsuits will be necessary in fiscal 1987 and an additional supplemental will be presented to the 1987 legislature.

Option A: Fund the supplemental request for $7,525.

Option B: Fund the supplemental request for $5,775.

Option C: Take no action.

FIRE SERVICES TRAINING SCHOOL

Budget Items	Fiscal 1987 House Bill 500	Fiscal 1987 Governor's Budget	Difference
F.T.E.	6.0	6.0	0.00
Personal Service	$179,110	$166,883	$12,227
Operating Expense	53,758	53,758	-0-
Equipment	4,000	4,000	-0-
Total Expenditures	$236,868	$224,641	$12,227
General Fund	$231,868	$219,641	$12,227
Federal Revenue	2,000	2,000	-0-
Proprietary	3,000	3,000	-0-
Total Funding	$236,868	$224,641	$12,227

ISSUES IN GOVERNOR'S BUDGET	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
Gov. 1. Governor's 5 Percent Cut	($12,227)	-0-

ISSUE GOV. 1: GOVERNOR'S 5 PERCENT CUT

The eastern regional training manager for the school will retire before September 1, 1986. To meet the $12,227 general fund cut, the school will leave the position unfilled and reassign duties to the remaining staff.

FIRE SERVICES TRAINING SCHOOL

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	6.0	6.0	6.0	6.0	0.00
Personal Service	$149,139	$180,896	$178,055	$185,783	2.7
Operating Expense	56,674	50,328	63,486	53,758	6.8
Equipment	13,579	4,480	4,606	4,000	(10.7)
Total Expenditures	$219,392	$235,704	$246,147	$243,541	3.3
Fund Source					
General Fund	$218,898	$235,704	$229,147	$238,541	1.2
Federal Revenue	494	-0-	14,000	2,000	100.0
Proprietary Funds	0	0	3,000	3,000	100.0
Total Funds	$219,392	$235,704	$246,147	$243,541	3.3

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. Elimination of Agency		
Option A	$(238,541)	-0-
Option B	$(204,022)	-0-
Option C	$(238,541)	$238,541

The Fire Services Training School, located in Great Falls, is supervised by the Board of Public Education. The purpose of the school is to provide firefighting instruction, technical or advisory assistance, and training aids to Montana's 8,600 paid and volunteer firefighters. Approximately 50 to 60 regional classes are held per year, and approximately 10 to 15 classes are held locally at Great Falls or Miles City (one instructor is a resident of Miles City). The school also provides public education programs, but only to a very limited extent.

General fund increases 1.2 percent in fiscal 1987 compared with fiscal 1985. Federal funding in the 1987 biennium consists of a $12,000 federal grant to develop a five-year plan on fire prevention instruction and training and $4,000 of federal pass-

through funds from the Department of State Lands to purchase instructional materials and audio/visual aids. Proprietary funds will be generated by charges for the newsletter and student workbooks in the 1987 biennium.

ISSUE 1: ELIMINATION OF AGENCY

According to Section 20-31-103, MCA, the purpose of the fire services training school is to:

1. reduce the loss of life and personal injury caused by fire;
2. reduce property damage and loss caused by fire;
3. provide paid, volunteer, and other publicly or privately employed firefighters with professional training;
4. provide training in investigating the cause of fire;
5. develop new methods of fire prevention and fire fighting;
6. provide expertise for testing fire fighting methods and fire fighting equipment;
7. provide public educational programs to promote fire prevention.

The following is an analysis of the performance of these functions.

Training

Montana presently has 462 fire departments, of which 17 are paid fire departments serving 13 cities. The remaining communities, towns, and rural areas are served by 445 volunteer fire departments. Of the approximately 8,600 state firefighters, about 94 percent or 8,084 are volunteers.

A volunteer firefighter may join the volunteer firefighters retirement fund if he is an active member of his volunteer fire department and receives 30 hours of training per year. In fiscal 1985, approximately 5,000 volunteer firefighters or 61.8 percent qualified for the retirement fund. (The retirement fund is derived from state taxes on fire insurance premiums, which are collected by the state auditors. Five percent of this fund goes to the volunteer firefighters retirement fund.) As such, 61.8 percent of all volunteers received 30 hours of training. The Fire Services Training School provided 20 percent of these training hours.

According to a legislative audit report, dated August, 1985, over 21 percent of Montana's fire departments have not received formal training from any source in the

last two years. Therefore, about 1,800 firefighters have not recieved any formal training in the past two years.

According to the same audit report aside from the Fire Services Training School, there are five other sources of fire training in Montana: 1) local fire departments train paid firefighters; 2) the Bureau of Indian Affairs and Bureau of Land Management provide limited training generally for personnel within their organization; 3) The Montana Department of State Lands is primarily responsible for all wild land fire training in the state; 4) local fire districts provide training to group members; and 5) private firms, such as railroads and propane distributors, offer training to their employees, but also allow area fire department personnel to attend.

Table 1 illustrates the number of participants in the training program at the school in fiscal years 1985 and 1986, the number of classes offered, and the hours of instruction.

Table 1
Participation in Fire School Training Programs for Fiscal 1985 and 1986

Time	No. of Classes	No. of Participants	Hrs. of Instruction	Hrs. Per Student
Fiscal 1985	81	1,915	1,238	15.2
Fiscal 1986 (3 qtrs)	81	1,730	935	11.5

In fiscal 1985, 1,915 students received an average of 15.2 hours of training per student. In fiscal 1986, for the first 3 quarters of the year, 935 students received an average of 11.5 hours of training per student.

Training - Manual

The International Fire Service Training Program provides manuals to the Fire Services Training School and interested fire districts concerning various skills related to firefighting. Manuals are free of charge. The school does not train specifically

on each manual, but it does provide tests on the manuals which it mails to the districts. The school also grades each test. The following table gives the school's statistics on those who took tests on the manuals in calendar year 1985 and to date in 1986.

Table 2
Manuals Program Activity Report

Manual	1985	Jan-March 1986
Basic	166	81
Forcible Entry	27	5
Ladders	5	14
Hose	8	2
Salvage	8	7
Fire Streams	8	9
Fire Apparatus	15	3
Ventilation	18	3
Rescue	8	2
First Aid	10	6
Fire Inspection	4	1
Self-Contained Breathing Apparatus	9	2
Water Supply	39	7
Total Tests Graded	325	142

Certification

The fire school offers certification to those firefighters who successfully pass a test for any of the following classifications: Firefighter I, II, III, and Airport Fire Firefighter. Certification is not a requirement to be a firefighter, and the school is not yet nationally accredited to give the test.

The fire school does not offer classes specifically relating to certification. However, certification has been a "carrot" to influence local fire districts to provide sufficient training for members to successfully pass certification tests. Table 3 illustrates exams administered and percent of success for Firefighters I, II, III level certification program for calendar years 1983 to 1986.

Table 3
Certification Tests Administered and Level of Success for 1985-1986

Certification Level	Exam Admin. 1983	Percent Success	Exam Admin. 1984	Percent Success	Exam Admin. 1985	Percent Success	Exam Admin.* 1986	Percent Success
I	133	N/A	124	.71	229	.72	-0-	-0-
II	58	N/A	110	.57	268	.57	2	100
III	113	N/A	101	.32	385	.32	-0-	-0-
Airport FF	-0-	N/A	-0-	-0-	17	.85	1	-0-
Total	304		335		899		3	

*Fire School uses calendar years for statistics. 1986 is for January through March.

From 1980-1985, 1,110 persons have obtained certification from the fire school.

Since June, 1985, the number of persons taking the test has fallen off dramatically. Up until June, 1985, certification involved successful completion of a written examination derived from standards adopted by the National Fire Protection Association. Since June, 1985, a person must not only take a test but also perform tasks related to certification. Three persons must witness the completion of each task and attest to its being completed properly.

According to the school officials, all personnel spend some time developing certification test materials. In fiscal 1985, one FTE spent full time on certification. In fiscal 1986, about 40 percent of one FTE is specially utilized for testing and grading. Taking into consideration the one FTE who is primarily responsible for certification and overhead costs, the program cost in fiscal 1985 was approximately $30,586 and in fiscal 1986 will be approximately $12,329.

Fire Investigation Training

The Fire Services Training School, according to statute, provides training in investigating the cause of a fire. However, based upon an oral agreement with the State Fire Marshal in 1983, the Fire Marshal Bureau has assumed most of the respon-

sibility for providing fire investigation training. The fire school does maintain educational material in its resource center which relates to fire investigation training.

Educational Programs

School officials maintain that the school's major function is as a resource center. Local districts utilize the educational materials to conduct their own training. In fiscal 1985 the Fire Services Training School had over 2,000 educational mailings. (This does not include mailings concerning schedules, newsletters, etc.) Educational material in the resource center includes approximately 400 audio-visual type items and approximately 1,100 books, technical reports, and instruction kits which contain specialized equipment. The school pays the postage on all educational mailings. In fiscal 1985, total postage was $2,451. Table 4 illustrates the resource center use from calendar years 1983 to 1986.

Table 4
Resource Center Use From Calendar Years 1983 to 1986

Items Loaned	1983	1984	1985	Jan-April 1986
Films			594	129
Slides			858	237
Video Tapes			495	160
Transparencies			60	28
Lesson Plans			44	45
Equipment			6	3
Total	1,541*	1,651*	2,057	602

*breakdown not available

New Methods and Materials

The Fire Services Training School, according to statute, develops new methods of fire prevention and firefighting. At present, the Fire Services Training School

only makes information available concerning new methods of fire prevention and fighting; it does not develop new methods.

Public Education

Public education programs, according to school definition, are educational programs which deal directly with the public. In fiscal 1985, the school provided 1.5 programs, and in fiscal 1986 it has provided .50 programs (a carryover from fiscal 1985). The school does provide classes which instruct firefighters on how to teach others. It is the school's philosophy that this approach will ultimately reach more people.

Summary

The legislature may want to consider elimination of Fire Services Training School for the following reasons.

1. The Fire Services Training School training programs only reach 22 percent of the state's volunteer firefighters each year.
2. 39.8 percent of the 61.8 percent of firefighters who received 30 hours of training or more in fiscal 1985 did not utilize the Fire Services Training School at all.
3. Certification testing is not required to fight fires and has lost appeal since stricter requirements came into play.
4. The school's major operation is the resource center which handled 2,057 mailings in fiscal 1985 or approximately 7.9 mailing a day.
5. The Fire Marshal conducts the majority of investigative training.
6. Public education programs are very limited and almost nonexistent.
7. Training alternatives are available and are being used by the majority of firefighters.

Elimination of the Fire Services Training School would require that the 22 percent of firefighters using the Fire Services Training School go to another available source. Certification testing could be handled by the Office of Public Instruction or through adult education. OPI's audio/visual library and the State Library could handle resource requests. Investigative training is being performed mostly by the

Fire Marshal. Public education programs, according to the legislative auditors, are already being performed by local fire departments, private organizations, and the federal government.

Option A: Eliminate the Fire Services Training School for a general fund reduction of $238,541.

Option B: Place 1 FTE under the Fire Marshal to function as a fire education resource specialist for a general fund savings of $204,022. This position would provide scheduling information in regards to available classes, make certification training available twice a year, coordinate with the state library and the Office of Public Instruction audio-visual library to insure that new materials are made available and provide limited training.

Option C: Eliminate the general funding and increase proprietary funds by a like amount to make the agency self-supporting.

SCHOOL FOR THE DEAF AND BLIND

Budget Items	Fiscal 1987 House Bill 500	Fiscal 1987 Governor's Budget	Fiscal 1987 Difference
F.T.E.	86.82	84.82	2.0
Personal Service	$1,979,483	$1,929,571	$ 49,912
Operating Expense	1,151,050	1,065,413	85,637
Equipment	37,960	37,960	-0-
Total Expenditures	$3,168,493	$3,032,944	$135,549
General Fund	$2,710,993	$2,575,444	$135,549
Federal Revenue	457,500	457,500	-0-
Total Funding	$3,168,493	$3,032,944	$135,549

ISSUES IN GOVERNOR'S BUDGET - Fiscal 1987	General Fund	Other Funds
Gov. 1. Governor's 5 Percent Cut		
A. Education Program	$(49,912)	-0-
B. Audiology Program	$(85,637)	-0-

ISSUE GOV. 1: 5 PERCENT CUT

Two FTE in the itinerant component of the education program are reduced. This program has 3 FTE consultants that travel to Montana public schools to work with children who have sight problems. The 1 FTE consultant remaining will continue the program but will only provide services to those children with severe visual problems.

The number of hearing tests given to school children each year are reduced. In fiscal 1986 tests were given to grades K, 1, 2, 3, 7, and 8. The Board of Education recently changed their policy reducing the number of tests to be given, however, the $85,637 is the dollar amount the school is reducing from the audiology program to meet the 5 percent budget reduction and it is not based on any estimates of reduced hearing tests related to the board's new policy.

SCHOOL FOR THE DEAF AND BLIND

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	85.36	85.36	86.82	86.82	1.46
Personal Service	$1,889,597	$1,945,340	$2,015,910	$2,093,156	7.6
Operating Expense	911,722	1,163,588	1,103,643	1,151,050	(1.1)
Equipment	13,969	9,509	48,928	37,960	299.2
Total Expenditures	$2,815,288	$3,118,437	$3,168,481	$3,282,166	5.3
Fund Source					
General Fund	$2,397,856	$2,624,294	$2,682,257	$2,813,464	7.2
Federal and Other	417,432	494,143	486,224	468,702	(5.1)
Total Funds	$2,815,288	$3,118,437	$3,168,481	$3,282,166	5.3

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. Pre-School Teachers	$(42,320)	-0-
2. Reclassified Positions		
Option A.	$(71,000)	-0-
Option B.	$(23,759)	-0-
3. Audiological Services	$(187,566)	-0-

The Montana School for the Deaf and Blind is for children and adolescents who are deaf and/or blind or whose hearing or sight is so defective that they are unable to receive a proper education in the public schools of the state. The statutory authority for the school is contained in Title 20, chapter 8, part 1, MCA. Approximately 325 children, ranging in age from infancy to 18, are served. Of these, approximately three-fourths are serviced by the school's Outreach and Itinerant Program, and the other 75 to 80 students reside on campus during the school year.

Funding support for the school is provided from the general fund, interest and income from school trust lands, federal Chapter I funds available under the Education

Consolidation Improvement Act of 1981, federal school food funds, and proceeds from athletic events.

Personal services increase 7.6 percent from fiscal 1985 to fiscal 1987. This increase is due to the pay plan allocation and the addition of 1.46 FTE pre-school teachers to accommodate an anticipated ten additional pre-school children in the 1987 biennium. Operating expenses decrease $12,538 or 1 percent between fiscal 1985 and fiscal 1987 largely due to the 1985 biennial audit appropriation being expended in fiscal 1985 and the 1987 biennial audit expense being appropriated in fiscal 1986 rather than fiscal 1987. Equipment increased by $28,451 or approximately 300 percent in fiscal 1987 compared with fiscal 1985. Included in equipment costs for fiscal 1987 is a decoder (a device which attaches to a television set and displays at the bottom of the screen what is being said), 3 washer/dryer sets, a telephone communication system, and audio visual equipment.

The decrease in federal and donated funds in fiscal 1987 is due to using part of the fund balance in fiscal 1985.

ISSUE 1: PRESCHOOL TEACHERS

For the 1987 biennium, the legislature appropriated $40,774 in fiscal 1986 and $42,320 in fiscal 1987 for an additional 1.46 FTE teachers for pre-school children. The additional teachers include a .73 FTE teacher for the hearing impaired and a .73 FTE teacher for the visual/multi-handicapped. The legislature approved the hiring of the additional teachers subject to an enrollment increase of ten pre-school children in the 1987 biennium.

Enrollment of pre-school children has increased from eleven children at the beginning of fiscal 1986 to the current level of sixteen. Seventeen pre-school children are projected by year-end.

The school has utilized the 1.46 FTE teachers as substitute teachers during fiscal 1986 and year-to-date expenditures for those positions as of April 11, 1986 are

$20,456. No additional pre-school teachers have been hired in fiscal 1986.

Since these positions were not utilized as the legislature intended, the legislature may want to eliminate the positions in fiscal 1987.

There are currently 2 vacant teacher positions at .73 FTE each, one in the primary (pre-school) program and one in the junior high school program, that would be available for substitute teacher positions.

Option A: Delete the 1.46 FTE teachers for a general fund savings of $42,320 in fiscal 1987.

Option B: Take no action.

ISSUE 2: DELETE EXCESS FTE TRANSFERRED TO STUDENT SERVICES "C" WING

The school has two 40 bed dormitories for children who live on campus and attend the school. In September 1985, the school closed "C" Wing because the resident population was down to 65. "C" wing, which has a bed capacity of 12, was reopened again on January 8, 1986 when the resident population reached 71. This wing had not been closed in either fiscal year 1984 or 1985. Table 1 shows an analysis of the resident populations for fiscal years 1984 to 1986.

Table 1
Dormitory Bed Capacity and Resident Populations
Fiscal 1984-1986

Wing	Bed Capacity	School Year 1983/1984	School Year 1984/1985	School Year 1985/1986
A	13	14	14	14
B	12	11	13	9
C	12	9	7	7
D	13	14	14	14
E	12	16	10	13
F	12	17	15	14
Totals	74	81	73	71

Note: "C" Wing has an additional 4 beds used for infirmary beds. When resident population is high there can be double bunking.

The breakdown of current population by departments, in wings, is as follows:

"A" Wing - Fourteen (14) girls ages 11-18 years. Three (3) of these students are visually impaired and eleven (11) are deaf. Six (6) of these students have an additional handicapping conditions(s) which include cerebral palsy, developmental disabilities, and/or orthopedic handicaps. (2 staff persons)

"B" Wing - Nine (9) students ages 3-9 years. Five (5) of these students are boys and four (4) are girls. Two (2) of the children have an additional handicapping condition which includes visual impairment and orthopedic handicap. (2 staff persons)

"C" Wing - Seven (7) students ages 5-16 years. Four (4) of these students are boys and three (3) are girls. All of these children have one or more additional handicapping conditions which include cerebral palsy, developmental disabilities, orthopedic handicaps. (2 staff persons)

"D" Wing - Fourteen (14) girls ages 16-20 years. Thirteen (13) deaf and (1) visually impaired children. Two (2) of these students have an additional handicapping condition of developmental disabilities, visual impairment, and orthopedic handicap. (2 staff persons)

"E" Wing - Thirteen (13) boys ages 16-18 years. All of the students in this department are deaf. Six (6) have additional handicapping conditions of orthopedic handicaps, developmental disabilities, and visual impairments. (2 staff persons)

"F" Wing - Fourteen (14) boys ages 11-13 years. Three (3) have additional handicapping conditions of developmental disabilities, cystic fibrosis, and orthopedic handicap.

The authorized FTE level for the dormitories remained fairly constant from fiscal 1984 until January 8, 1986 when "C" Wing was reopened. Table 2 shows the authorized positions for fiscal 1984 to 1986.

Table 2
School For the Deaf and Blind - Authorized Positions in the Student Services Program

Positions	Fiscal 1984	Fiscal 1985	Fiscal 1986	Change Fiscal 84-86
Administrative	4.00	3.00	3.75	(0.25)
House Parents	3.92	3.92	3.92	-0-
Cottage Life Attendants	11.85	12.98	15.71	3.86
Food Service Workers	2.09	2.34	2.34	0.25
Cooks	1.51	1.90	1.90	0.39
Nurses Aides	3.35	2.58	2.58	(.77)
Total FTE	26.72	26.72	30.20	3.48

Table 2 shows that FTE increased by 3.48 in fiscal 1986. This increase is made up of a .75 FTE secretary position transferred from the education program, a .25 FTE vacant administrative clerk position transferred from the administration program, a .75 FTE vacant groundskeeper position transferred from the general services program, and 1.73 FTE vacant positions transferred from the education program. The 2.73 vacant positions transferred to the student services program were reclassified to cottage life attendant positions. The cost difference in reclassification is shown in Table 3. Budgeted benefits are at 23.9 percent which would make the personal service savings from the reclassification $23,759.

Table 3
School for the Deaf and Blind - Reclassification of Positions
Fiscal 1986

Current Position	Authorized Budgeted Cost	Reclassified Position	Reclassification Budget Cost	Savings
.25 Admin. Clerk	$ 2,908	.25	$ 3,523	$(615)
.75 Groundskeeper	8,725	.75	10,569	(1,844)
1.00 Education	29,269	1.00	14,093	15,176
.73 Teacher	16,747	.73	10,288	6,459
Total	$57,649		$38,473	$19,176

Table 1 shows that resident populations in school years 1984 and 1985 were higher than the current population in school year 1986. In both years, "C" wing was open and staffed from the authorized cottage life attendant positions of 11.85 and 12.98 for school years 1984 and 1985 respectively. When the 2.73 vacant positions were reclassified to cottage life attendant positions, the reason given was that it was necessary for the reopening of "C" wing. Since this reclassification of positions is not supported by the population statistics, the legislature may want to delete the vacant positions that were reclassified to cottage life attendant positions. This would be a general fund savings of approximately $71,000 including benefits.

Option A: Delete the 2.73 current level positions that were reclassified to CLA positions for a 1987 general fund savings of $71,000.

Option B: Retain the reclassified position, but reduce the appropriation for the salary savings of $23,759.

Option C: Take no action.

ISSUE 3: AUDIOLOGICAL SERVICES REDUCTION

The audiological services program is a statewide audiological screening service provided by private contractors under the administration of the school. This program had been the responsibility of the Office of Public Instruction until July 1, 1984 when it was transferred to the School for the Deaf and Blind.

Responsibility for the audiological services rests with the Superintendent of Public Instruction. Section 20-7-403(14), MCA states:

> 20-7-403. Duties of Superintendent of Public Instruction. The superintendent of public instruction shall supervise and coordinate the conduct of special education in the state by:
> (14) contracting for the delivery of audiological services to those children allowed by Montana law in accordance with policies of the board of public education.

The Board of Public Education policies concerning audiological services are specified in the board's 1986-87 guidelines, which state in Section II (A)(1):

> Screening. Screening tests are intended to identify those individuals in need of referral for in-depth evaluation and identification. Services shall be conducted as prescribed in the 1983 guidelines described under hearing screening, middle ear screening, and rescreening, except that the mandatory grades to be screened annually may be limited to grades K, 1, 4 and 9.

This screening policy was recently amended by the board for the 1986-87 school year as a cost cutting measure to meet the Governor's 5 percent budget cuts. Previously the screening had been required for grades K, 1, 2, 3, 7, and 8.

Table 4 shows the audiological screening provided in fiscal 1985.

Table 4
Utilization of the Audiological Testing Service in Fiscal 1985

Age	Children Screened	Children Re-Screened*
0-2	1,976	33
3-5	12,332	1,438
6-18	83,779	18,765
18-21	56	8
Total	98,143	20,244

*Children who require another test for accurate evaluation.

Public school enrollment for the 1985 fiscal year was 151,224. A comparison of the number of children screened (excludes re-screening) to the total public school enrollment shows that approximately 65 percent had a screening test.

In the 1985 biennium there was an appropriation of $1,439,203 for audiological services. Expenditures for the program in fiscal 1984 were $500,130, and in fiscal 1985 expenditures were $912,230. As table 4 shows, children tested in fiscal 1985 totaled 118,388. Therefore, the average cost per test in fiscal 1985 was approximately $7.71.

Using the fiscal 1985 average cost of $7.71 increased to $8.18 for inflation in fiscal 1987, it would cost $485,434 to test pre-kindergarten children and grades K, 1, 4, and 9 based on fiscal 1985 statistics for screening and re-screening. This is $187,566 less than the fiscal 1987 appropriation of $673,000.

Option A: Contract for audiological testing for children under age 5 and grades K, 1, 4, and 9 only for a general fund savings of $187,566.

Option B: Take no action.

OFFICE OF PUBLIC INSTRUCTION

Governor's Issues	General Fund % Cut	Fiscal 1987 General Fund	Fiscal 1987 Other Funds	Fiscal 1987 Total
Issue 1: Across the Board Cuts				
OPI - State Administration	4.7	$ 112,963	$45,729	$ 158,692
OPI - Dist. to Public Schools	5.0	1,789,637	-0-	1,789,637
Billings Vo-Tech	8.3	66,222	-0-	66,222
Butte Vo-Tech	6.5	50,061	-0-	50,061
Great Falls Vo-Tech	7.0	54,588	-0-	54,588
Helena Vo-Tech	6.3	81,588	-0-	81,588
Missoula Vo-Tech	7.6	65,423	-0-	65,423
TOTAL GOVERNOR'S CUTS		$2,220,482	$ 45,729	$2,266,211
LFA Policy Options				
Delete Vo-Ed Curriculum Specialist		$ 32,221	$ -0-	$ 32,221
Delete AV Library Equipment		29,228	-0-	29,228
Two Percent Reduction		50,130	-0-	50,130
Reduce Special Education State Grants		576,035	-0-	576,035
Eliminate Secondary Vo-Ed Grants		480,000	-0-	480,000
Vo-Tech Centers Decreased Enrollment		122,655	50,405	173,060
Vo-Tech Centers Educ. Trust Interest		115,467	(115,467)	-0-
TOTAL LFA OPTIONS		$1,405,736	$ (65,062)	$1,340,674
COMBINED GOVERNOR'S CUTS AND LFA OPTIONS		$3,626,218	$ (19,333)	$3,606,885
Less: Duplicated Cuts		(810,269)	-0-	$ (810,269)
TOTAL UNDUPLICATED REDUCTIONS		$2,815,949	$ (19,333)	$2,796,616

GOV. ISSUE 1: ACROSS THE BOARD CUTS

The Governor has proposed 5 percent across-the-board general fund and state special revenue reductions in fiscal 1987 for the Office of Public Instruction, the distribution to public school program (excluding the foundation and permissive program) and the vocational technical centers. The actual general fund reduction in the state administration function is 4.7 percent of the fiscal 1987 general fund appropriation. Combined with the reduction in the distribution to public schools function, the overall agency general fund cut is 5 percent.

At the vo-tech centers, all reductions are taken in general fund, resulting in a greater-than-5-percent general fund reduction. The overall cuts at the vo-techs equal five percent of the general fund, county millage, and education trust interest appropriations.

LFA POLICY OPTIONS

The Legislative Fiscal Analyst has presented five policy options for legislative consideration impacting the Office of Public Instruction and Vo-Tech Centers. The details of these options are included in the analysis.

DUPLICATED CUTS

The total reduction presented by the Governor and the Legislative Fiscal Analyst policy options total $3,606,885. Duplication totaling $810,269 occurs in three areas as presented in table 1 below.

Table 1
Duplicated Cuts in Governor's Budget and LFA Policy Options
Office of Public Instruction

Agency/Function	Gov. 5% Cut	LFA Policy Option	Amount Duplicated
1. OPI - State Admin.	$ 112,963	$111,579	$111,579
2. OPI - Special Ed.	1,440,087	576,035	576,035
3. Vo-Techs	317,882	122,655	122,655
Total Duplicated Cuts			$810,269

OFFICE OF PUBLIC INSTRUCTION

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	136.10	137.10	134.10	134.10	(3.0)
Personal Service	$3,305,193	$3,578,645	$3,622,819	$3,751,588	4.9
Operating Expense	1,335,438	1,351,478	1,587,140	1,538,398	13.8
Equipment	111,974	115,637	57,193	59,710	(48.4)
Total Operating Costs	$4,752,605	$5,045,760	$5,267,152	$5,349,696	6.0
Non-Operating Costs	411,656	415,281	445,666	443,738	6.9
Total Expenditures	$5,164,261	$5,461,041	$5,712,818	$5,793,434	6.1
Fund Source					
General Fund	$2,214,690	$2,436,721	$2,428,102	$2,506,516	2.8
State Special	680,064	646,033	760,792	769,980	19.2
Federal Revenue	2,269,507	2,376,077	2,523,924	2,516,938	5.9
Other Funds	-0-	2,210	-0-	-0-	---
Total Funds	$5,164,261	$5,461,041	$5,712,818	$5,793,434	6.1

ISSUES - Fiscal 1987	General Fund	Other Funds
1. Vocational Education	$(32,221)	-0-
2. Audio-Visual Library	$(29,228)	-0-
3. 2 Percent Reduction	$(50,130)	-0-

The Office of Public Instruction is the state education agency which provides general supervision of the public primary and secondary schools and postsecondary vocational technical centers in Montana. The Office of Public Instruction administers federal and state regulations applicable to the local school districts, provides technical and curriculum assistance, monitors federal programs and expenditures, provides state leadership to local districts, and disburses state funds to local school districts in the area of special education, transportation, and others. The Superintendent of Public Instruction is an elected official and serves a four-year term.

The budget for the Office of Public Instruction provides funding for five programs: chief state school officer, basic skills, vocational education, administrative services, and special services.

Personnel costs for fiscal 1987 increase 4.9 percent from fiscal 1985. The increase is due to the pay plan appropriation of $189,459. Operating costs increase 13.8 percent from fiscal 1985 to 1987 due to a teacher pre-certification and student achievement testing program, increased rent and janitorial costs, $40,000 to administer the Title IV sex desegregation grant, and inflation.

Equipment decreases 48.4 percent because the Office of Public Instruction used operating funds to purchase equipment in fiscal 1985.

Non-operating costs are indirect cost transfers from nongeneral fund programs to the administrative cost center where indirect cost activity is recorded.

State special revenue includes $168,371 in fiscal 1987 for the audio-visual library rental fees, indirect cost assessments of $443,738, resource assessment funds, and school food reimbursements from local school districts. Federal revenue increases 5.9 percent from fiscal 1985 to 1987.

ISSUE 1: VOCATIONAL EDUCATION

During regular session, the legislature provided a biennial appropriation of $193,327 general fund, excluding pay plan, for 3.0 FTE education program specialists that were supported in the 1985 biennium from federal vocational education funds. The legislature approved this general fund replacement as sufficient federal funds were not available to maintain the positions in the 1987 biennium.

One education program specialist, grade 15, has been vacant all of fiscal year 1986. Deleting this position would save $32,221 general fund in fiscal 1987.

Option A: Delete the unfilled position and reduce the fiscal 1987 general fund appropriation by $32,221.

Option B: Take no action.

ISSUE 2: AUDIO-VISUAL LIBRARY USAGE VS. FEES

General fund is used to purchase new films in the audio-visual library. The rest of the operation is to be self-supporting through film rental fees.

The film library has 5,071 films and has purchased new films every year. However, the film rentals and income is declining. Following is a review of the pricing history and usage as reported by the Office of Public Instruction.

Pricing History

The Audiovisual Library was established by the legislators of the twenty-seventh session in 1941. Users were requested to donate films to the library, based upon their use of the library. For example, up to 74 bookings a year, the school would be requested to donate one four hundred foot film.

In 1960, a rental rate of $1.00 per film was established. That rate was in effect until 1975 when the rental rate for films was changed to $2.00 per film per week. In 1977, the rate was raised to $5.00 per film for a one week booking. In 1979, the rate of rental was changed again to $6.50 per film per week. In 1980 a dual rate was adopted. For films longer than ten minutes in length, the rate is $6.50 per film, shorter than ten minutes is $3.50 per film. This rate schedule remains in effect.

Usage Report

In 1973, use of the library was at its high point. In the first weekly run there were 80,000 requests for one year with a peak week of 2,300 films shipped.

In contrast, the total yearly requests for the 1983-84 school year were 18,000 films with a peak week of 800 films shipped.

The total yearly requests for the 1984-85 school year is 16,000 films with a peak week of almost 600 films shipped.

Usage of the library has declined every time the rental rate has increased.

Financial Condition

In the 1985 session, $164,464 in fiscal 1986 and $168,371 in fiscal 1987 was appropriated from rental fees. As of April 30, 1986, the audio-visual library had collected $83,538. To "break even" the library would need to collect $80,926, in the last two months of the fiscal year.

Program Outlook

New films have been purchased yearly, the library has a large film inventory, film prices haven't been raised since 1980, general fund supplements the film purchases each year, and yet demand for the audio-visual library services is decreasing. The need for this service from the Office of Public Instruction should be reevaluated in fiscal 1987. While this reassessment is occurring, the legislature may consider not spending the $29,228 of general fund appropriated for films in fiscal 1987.

Option A: Do not purchase films for a general fund savings of $29,228 in fiscal 1987 and ask the Office of Public Instruction to reevaluate the program before the 1987 session.

Option B: Take no action.

ISSUE 3: 2 PERCENT REDUCTION

In response to the Governor's request for a 2 percent general fund reduction in fiscal 1986, the Office of Public Instruction reduced its general fund appropriation for state administration $46,420. All reductions were made in operating expenses. Continuing a 2 percent general fund reduction in fiscal 1987 would reduce general fund $50,130. Table 5 below illustrates the fiscal impact to the Office of Public Instruction of a two percent reduction in fiscal 1987.

Table 5
2 Percent General Fund Reduction

	Appropriated Fiscal 1987	2 Percent Cut	Revised Fiscal 1987
Personal Service	$3,751,588	$ -0-	$3,751,588
Operating Expense	1,538,398	(50,130)	1,488,268
Equipment	59,710		59,710
Total Operating	$5,349,696	$(50,130)	$5,299,566
Non-Operating	443,738		443,738
Total Expenses	$5,793,434	$(50,130)	$5,743,304
General Fund	$2,506,516	$(50,130)	$2,456,386
State Special	769,980		769,980
Federal Revenue	2,516,938		2,516,938
Total Fund	$5,793,434	$(50,130)	$5,743,304

Option A: Decrease the fiscal 1987 general fund appropriation $50,130.

Option B: Take no action.

DISTRIBUTION TO PUBLIC SCHOOLS

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Appropriated Fiscal 1987	% Change FY85 to FY87
Special Education	$26,197,564	$27,248,933	$27,451,564	$28,801,733	5.7
Special Education Contingency	410,826	427,278	784,000	-0-	---
Transportation	5,574,642	6,083,466	5,964,280	6,086,000	.04
School Lunch	674,100	648,214	627,200	655,000	1.0
Gifted/Talented	93,475	105,987	98,000	100,000	(5.6)
Secondary Vo-ed	749,354	750,646	980,000	-0-	---
Adult Basic Ed.	136,672	146,227	148,535	155,962	6.7
Federal Grants	2,960,293	4,151,072	3,886,412	3,964,879	(4.5)
Impact Aid	4,978	4,135	11,050	13,000	---
Total	$36,801,904	$39,565,958	$39,951,041	$39,776,574	.5
Fund Source					
General Fund	$33,704,939	$35,268,659	$35,916,094	$35,655,733	1.1
State Special	136,672	146,227	148,535	155,962	6.7
Federal Revenue	2,960,293	4,151,072	3,886,412	3,964,879	(4.5)
Total Funds	$36,801,904	$39,565,958	$39,951,041	$39,776,574	.5

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. Special Education	$(576,035)	-0-
2. Secondary Vo-ed	$(480,000)	-0-

The Distribution to Public Schools Program is used by the Office of Public Instruction to distribute state and federal grants to local school districts and education agencies in several areas including, special education, pupil transportation, school lunch, gifted and talented grants, vocational education, adult basic education, and state impact aid. Following is a short summary of the areas within the distribution program.

Special Education - School districts provide a free and appropriate public education for all handicapped children. As of December 1, 1985, 14,859 children were

being served in the special education program. The appropriation, which is all general fund, increased 5.7 percent from fiscal 1985 to fiscal 1987.

Special education contingency - The special education contingency is used to provide funding for schools that incur unanticipated special education expenses. Funding decreased to a 1987 biennial appropriation of $800,000 which was reduced to $784,000 under the 2 percent reduction.

Transportation - School districts providing home-to-school transportation of children receive a state reimbursement. The fiscal 1987 appropriation increased .04 percent from 1985, due to inflationary increases.

School lunch - The local school lunch programs are funded from federal cash and commodity assistance, charges to participants, school district funds, and state general fund appropriations. The state appropriation of $655,000 reflects the minimum federal funds matching requirements.

Gifted and Talented - This program provides competitive grants to local schools for implementing or improving their gifted and talented programs. The general fund appropriation has remained at $100,000 since the program's inception.

Secondary Vocational Education Grants - General fund is used to supplement secondary vocational education programs funded through the school foundation program and local property levies. The biennial appropriation was for $1 million, which is $500,000 less than the 1985 biennial appropriation.

Adult Basic Education - This program provides high school level education to persons who have not completed twelve years of education. The program is funded by federal funds, local permissive levies, and education trust interest funds. The fiscal 1987 appropriation is for $155,962, a 6.7 percent increase over fiscal 1985.

Federal Grants - These are funds received from the U.S. Department of Education for use by school districts.

Impact Aid - Section 20-9-304, MCA, provides for supplementary payments from the state to school districts that provide education to children of employees of public institutions.

ISSUE 1: SPECIAL EDUCATION

The 1985 legislature appropriated general fund of $28,011,800 in fiscal 1986 and $28,801,733 in fiscal 1987 for special education programs. The appropriated totals were based upon fiscal 1984 expenditures of $26,197,627 plus inflation of 6.9 percent in fiscal 1986 and an additional 2.8 percent in fiscal 1987.

Special education programs served 15,132 students in fiscal 1984 at a cost of $1,731 per student. Assuming a maintenance of that number of students, the appropriated funds per students totaled $1,851 in fiscal 1986 and $1,903 in fiscal 1987.

As part of the Governor's 2 percent reductions, the fiscal 1986 appropriation was reduced by $560,236 to $27,451,564. This did not result in a 2 percent reduction in funds per student, however, as the number of students in special education had decreased by 1.8 percent, from 15,132 to 14,839. According to the Office of Public Instruction, the decrease in students was due to stricter criteria for qualifying for special education programs. As a result, there was no appreciable decrease in funds per student from the original appropriated increase of 6.9 percent as shown in the following table.

Table 1
Actual and Anticipated Special Education
Fiscal 1986

	Anticipated 1986	Actual 1986
Appropriation	$28,011,800	$27,451,564
Students	÷ 15,132	÷ 14,839
Funds Per Student	$1,851	$1,850

If enrollment remains constant at 14,839, the fiscal 1987 appropriation could be reduced by 2 percent with no appreciable impact on funds per student from the original appropriation, as shown in table 2.

Table 2
Actual and Adjusted Special Education
Fiscal 1987

	Anticipated 1987	Adjusted 1987
Appropriation	$28,801,733	$28,225,698
Students	÷ 15,132	÷ 14,839
Funds Per Student	$1,903	$1,902

Option A: Reduce fiscal 1987 special education grants by 2 percent to $28,225,698 saving $576,035 in general fund.

Option B: Take no action.

ISSUE 2: SECONDARY VO-ED GRANTS

General fund of $1,000,000 was allocated in the 1987 biennium, over and above the school foundation allocation, to approved secondary vo-ed programs in the state to fund their "excess" costs. The special provision for excess costs is now designed by the Office of Public Instruction to relieve local taxpayers of costs associated with vo-ed programs, such as extended teacher contracts and equipment, not associated with other school programs.

Secondary vo-ed programs are given an additional state general fund appropriation above the foundation program amount. As stated earlier, the special grant is designed by OPI to reduce the burden on local taxpayers of excess program costs. As seen in table 3, however, the program costs are increasing very rapidly. Total program costs have increased 31.6 percent in three years. The cost per student has increased 38.6 percent, while the CPI is expected to increase only 10.4 percent. Therefore, regardless of the $480,000 state grant, the local taxpayer is

experiencing significant cost increases due to the program expenditure growth. The state grant is 2.8 percent of the total secondary vo-ed program costs in fiscal 1986 and amounts to $19 per student. It appears that the taxpayers would benefit from program cost control. The $480,000 annual state grant, which is 0.3 percent of the total general fund school budget, is insignificant in terms of property tax relief state wide.

Table 3
Secondary Vo-Ed Costs and Statistics

	Fiscal 1983	% Chg	Fiscal 1984	% Chg	Fiscal 1985	% Chg	OPI Est. Fiscal 1986	Cumulative Change
Total Cost	$13,117,061	10.4	$14,447,664	14.6	$16,556,305	4.2	$17,258,000	31.6%
Excess Costs	2,879,484		3,061,473		3,112,321		3,164,000	
Regular Costs	$10,237,577	11.2	$11,386,191	18.1	$13,443,984	4.8	$14,094,000	
Divide by Students	25,159		24,442		24,861		25,000	
Cost/Student	$ 407	14.5	$ 466	16.1	$ 541	4.3	$ 564	38.6%
CPI		3.7		3.9		2.5		10.4%
School Foundation		4.0		3.0		4.0		11.4%

Option A: Discontinue the special secondary vo-ed grant, saving $480,000 in general fund in fiscal 1987.

Option B: Take no action.

POSTSECONDARY VOCATIONAL TECHNICAL CENTERS

Expenditures by Center	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
Billings	$1,543,458	$1,646,106	$1,758,985	$1,823,335	10.8
Butte	1,235,200	1,304,065	1,376,051	1,425,915	9.3
Great Falls	1,414,589	1,539,114	1,471,761	1,523,817	(1.0)
Helena	2,096,771	2,163,296	2,123,861	2,211,895	2.2
Missoula	2,132,251	2,195,715	1,990,336	2,066,869	(5.9)
Total Expenditures	$8,422,269	$8,848,296	$8,720,994	$9,051,831	2.3
Fund Source					
General Fund	$4,500,571	$4,695,349	$4,699,204	$4,831,278	2.9
Tuition	1,303,110	1,407,340	1,469,220	1,544,765	9.8
County Millage	823,751	842,220	855,233	868,314	3.1
Education Trust Int.	616,180	724,730	895,000	1,000,000	38.0
Fed. Vo-ed.	1,178,657	1,178,657	802,337	807,474	(31.5)
Total Funds	$8,422,269	$8,848,296	$8,720,994	$9,051,831	2.3

ISSUES - Fiscal 1987	General Fund	Other Funds
1. Enrollment	$(122,655)	$(50,405)
2. Education Trust Interest	$(115,467)	$115,467

Montana's Post-secondary Vocational Technical Centers are located in Billings, Butte, Great Falls, Helena and Missoula, and collectively serve approximately 2,500 students annually. The centers offer vocational technical training in business, distribution and marketing, health, home economics, and trade and industrial occupations. The centers are under the general supervision of the Office of Public Instruction.

As may be noted from the above table, total expenditures increase $203,535 in fiscal 1987 or 2.3 percent from fiscal year 1985. Individual center expenditure increases between fiscal 1985 to 1987 range from a 10.8 percent increase at Billings to a 5.9 percent decrease at Missoula. This is because "caps" on the minimum and maximum expenditure limitations were not implemented, as they had been in the past. It

was the legislature's hope that by not using "caps" each vo-tech center would move closer to a system average.

Budgets for the vo-tech centers are estimated by using a funding formula developed by the 1981 session Education Subcommittee and refined by the Legislative Finance Committee in the 1983 interim. The formula estimates the centers' budgets in four different areas: instruction, support, plant operations and maintenance, and equipment.

The instruction program budget is developed from the product of student enrollment and a flat rate per student based on fiscal 1982 instruction costs. Inflation and pay plan increases are added to the student instruction rate each year.

Activities in the support program include instruction support, academic supervision, financial and institutional administration, and student services. The budget factors used to estimate the support program budget include support staffing standards, average compensation for each type of support position, an average operating cost per full time equivalent support staff, and legislative audit costs.

The plant operation and maintenance personal services budget is estimated using support staffing standards and average compensation. The operating expenses are budgeted incrementally for each unit using the same inflation factors applied to other state agencies.

Equipment is estimated in two ways. Small equipment items with a unit price of $1,000 or less are provided for from a flat rate which totaled $36 per student in fiscal 1987. Larger capital equipment needs are submitted by each center and considered on an individual basis.

Funding for the vo-techs comes from five sources: 1) general fund; 2) tuition: Students paid $540 in tuition per year in fiscal 1985 and will pay $593 in fiscal 1987; 3) county millage: The county in which each center is located levies 1.5 mills each year. These funds increased 3.1 percent from fiscal 1985 to fiscal 1987; 4) education trust interest: These funds were increased by 38.0 percent from fiscal 1985 to fiscal

1987 to help defer the effects of the large decrease in federal funds; 5) federal funds: the Carl Perkins Act of 1984 is the vehicle by which federal money is appropriated for vo-tech centers. The major changes included in the Act causing the 31.5 percent decrease in funds were the provisions that federal money could not "maintain" a program, but rather must expand and improve programs.

ISSUE 1: ENROLLMENT PROJECTIONS

The fiscal 1986 appropriation assumed 2,605 FTE students; however, actual enrollment was 2,519 FTE students, or 86 fewer students than estimated. Table 1 shows enrollment by center. The appropriation for fiscal 1987 assumed the same number of student FTE as in fiscal 1986. Therefore, the estimated student FTE for fiscal 1987 should reflect actual fiscal 1986 enrollment.

Table 1
Vo-Tech Enrollment Estimated and Actual for Fiscal 1986

Center	Approp. FY 1986	Actual* FY 1986	Difference	Percent Change
Billings	511	499	(12)	(2.4)
Butte	415	406	(9)	(2.2)
Great Falls	423	391	(32)	(7.6)
Helena	660	647	(13)	(2.0)
Missoula	596	577	(19)	(3.2)
System	2605	2519	(86)	(3.3)

Source: OPI, 12th Day Enrollment Reports

Two programs, instruction and equipment, are directly impacted by FTE student enrollment. Instruction support equals student FTE times a flat rate of $2,000 per student before pay plan. Small equipment support equals student FTE times a flat rate of $36 per student.

Table 2 illustrates the fiscal 1987 appropriation for instruction and small equipment utilizing the actual fiscal 1986 student FTE instead of the estimated student

FTE. Assuming that fiscal 1987 student FTE remains at the actual 1986 level, $170,000 for instruction support and $3,060 for small equipment support is unnecessary.

Table 2
Appropriated and Revised Instruction Support for FY 1987

	- - - Approp. FY 1987 - - -		- - - Revised FY 1987 - - -			
Center	Instruction*	Small Equipment	Instruction*	Small Equipment	Approp/revised Instruction ($$)	Approp/revised Equipment ($$)
Billings	$1,022,000	$18,396	$ 998,000	$17,964	$ (24,000)	$ (432)
Butte	830,000	14,940	812,000	14,616	(18,000)	(324)
Great Falls	846,000	15,228	782,000	14,076	(64,000)	(1,152)
Helena	1,320,000	23,760	1,294,000	23,292	(26,000)	(468)
Missoula	1,192,000	21,456	1,154,000	20,772	(38,000)	(684)
System Total	$5,210,000	$93,780	$5,040,000	$90,720	$(170,000)	$(3,060)

*Pay plan not included.

Tuition revenue is estimated at a level requiring each FTE student to pay $593 in fiscal 1987. Because of enrollment decreases, tuition revenue will decrease $50,405 from the estimated appropriation. Table 3 shows tuition revenue estimated for fiscal 1987 and the revised tuition revenue using actual enrollment in fiscal 1986.

Table 3
Tuition Revenue as Estimated and Revised for Fiscal 1987

Center	Tuition Appropriated	Tuition Revised	Increase or (Decrease)
Billings	$ 303,023	$ 295,907	$ (7,116)
Butte	246,095	240,758	(5,337)
Great Falls	250,839	231,863	(18,976)
Helena	391,380	383,671	(7,709)
Missoula	353,428	342,161	(11,267)
System	$1,544,765	$1,494,360	$(50,405)

If actual fiscal 1986 enrollment is used for fiscal 1987, instruction and small equipment costs would be reduced $170,000 and $3,060, respectively, for a total of

$173,060. Taking into account the reduction in tuition revenue, the decrease to the general fund is $122,655.

Option A: Decrease the vo-tech center appropriation for instruction and small equipment by $173,060 to reflect actual enrollment, for a general fund savings of $122,655 and a tuition reduction of $50,405.

Option B: Take no action.

ISSUE 2: INCREASED EDUCATION TRUST INTEREST

As provided in Section 90-6-211, MCA, the adult basic education (ABE) program and the postsecondary vocational technical centers receive 10 percent of the interest earnings from the coal tax-funded education trust account. This law also states that the use of the funds is subject to the budgeting authority of the legislature. Since the legislature passed the law in 1983 authorizing the distribution of this education trust interest, it has chosen to fund ABE at current level and appropriated the remaining estimated income to the vo-tech centers.

Section 3 of both the 1983 and 1985 general appropriations act states that the approving authority (the Governor) shall decrease the general fund appropriation of the agency by the amount of funds received from other sources (in this case, the education trust income) in excess of the appropriation provided in this act unless such action is contrary to state or federal law or the approving authority certifies that the services to be funded by the additional funds are significantly different from those for which the agency has received a general fund appropriation.

In fiscal 1985, the total interest income collected for ABE and vo-techs was $954,856 while total interest expenditures were $870,957. The remaining $94,680 (after adjustments) was left in fund balance in the ABE account. The legislature intended that the vo-tech centers should receive all the interest income after the needs of ABE had been met up to the appropriated level. The excess revenue should have

been used to reduce general fund at the five vo-tech centers. No general fund reversions occurred.

Education trust interest income estimates from our office have been revised upward since the 1985 legislature established the ABE and vo-tech appropriations. Table 4 details the combined fund analysis of the state special revenue accounts for ABE and the vo-tech centers. The fiscal 1986 and 1987 estimated columns show that revenue will exceed appropriated expenditures in fiscal 1986 and will be less than appropriated expenditures in fiscal 1987. Assuming there is no general fund reversion in fiscal 1986, there is estimated to be a $115,467 fund balance at fiscal year end 1987. Using this fund balance to offset general fund at the vo-tech centers in fiscal 1987 will not result in expenditure reductions, but will provide a one-time general fund savings of $115,467.

Table 4
Combined Fund Balance for ABE and Vo-Tech Education Trust Interest
Fiscal Years 1984 to 1987

	FY84 Actual	FY85 Actual	FY86 Est.	FY87 Est.
Beginning Fund Balance	$ -0-	$ 3,826	$ 94,680	$ 140,757
Receipts/Transfer In	756,678	954,856	1,089,612	1,130,662
Total Funds Available	$756,678	$958,682	$1,184,292	$1,271,419
Expenditures	752,852	870,957	1,043,535	1,155,952
PY Adjustments	-0-	(7,013)	-0-	-0-
Total Exp. & Adj.	$752,852	$863,944	$1,043,535	$1,155,952
Net Operations	$ 3,826	$ 94,738	$ 140,757	$ 115,467
Adjustments	-0-	(58)	-0-	-0-
Ending Fund Balance	$3,826	$ 94,680	$ 140,757	$ 115,467

Option A: Reduce the 1987 general fund appropriation of the vo-tech centers $115,467 and increase the education trust interest appropriation by a like amount.

Option B: Take no action.

ADVISORY COUNCIL FOR VO-ED

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	2.0	2.0	2.0	2.0	0.00
Personal Service	$55,865	$57,771	$ 58,857	$ 59,380	2.8
Operating Expense	38,826	38,658	57,493	56,970	47.4
Equipment	449	-0-	-0-	-0-	---
Total Expenditures	$95,140	$96,429	$116,350	$116,350	20.7
Fund Source					
Federal Funds	$95,140	$96,429	$116,350	$116,350	20.7
Total Funds	$95,140	$96,429	$116,350	$116,350	20.7

The Montana Advisory Council was created in 1969 by executive order to comply with the Education Amendments Act (P.L. 94-487). The Carl Perkins Act of 1984 changed the name of the council to the State Council for Vocational Education. Membership is limited to 13. The council's responsibility changed from an advisory role to the Superintendent of Public Instruction on matters dealing with vocational education to a partner role in the planning and evaluation process.

The State Council for Vocational Education has one program and 2 FTE. Funding is 20.7 percent higher in fiscal 1987 than fiscal 1985 due to increased federal support which the council utilized for operating expenses.

MONTANA ARTS COUNCIL

Budget Items	Fiscal 1987 House Bill 500	Fiscal 1987 Governor's Budget	Difference
F.T.E.	4.0	4.0	0.00
Personal Service	$111,265	$111,265	$ -0-
Operating Expense	227,932	222,117	(5,815)
Total Operating Costs	$339,197	$333,382	$(5,815)
Non-Operating Costs	168,600	168,600	-0-
Total Expenditures	$507,797	$501,982	$(5,815)
General Fund	$116,300	$110,485	$(5,815)
Federal Revenue	391,497	391,497	-0-
Total Funding	$507,797	$501,982	$(5,815)

ISSUES IN GOVERNOR'S BUDGET	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
Gov. 1. Governor's 5 Percent Cut		
A. Administration	$(3,460)	-0-
B. Special Programs	$(2,355)	-0-

ISSUE GOV. 1: 5 PERCENT CUT

The Montana Arts Council is decreasing contracted services in the Administration Program by $3,460.

In the Special Program, the council is decreasing Artists in the Schools/Community Match general fund support by $2,355. Total support remaining for the program, which includes community match funds, federal funds, and general fund, is approximately $135,000.

MONTANA ARTS COUNCIL

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	4.0	4.0	4.0	4.5	.50
Personal Service	$118,561	$ 92,669	$ 121,830	$ 126,237	36.2
Operating Expense	256,974	284,356	236,245	235,617	(17.1)
Equipment	2,754	1,896	-0-	-0-	---
Total Operating Costs	$378,289	$ 378,921	$ 358,075	$ 361,854	(4.5)
Non-Operating Costs	377,380	774,822	860,815	815,206	5.2
Total Expenditures	$755,669	$1,153,743	$1,218,890	$1,177,060	2.0
Fund Source					
General Fund	$130,883	$ 119,739	$ 118,707	$ 118,379	(1.1)
State Special	224,205	587,333	663,255	663,256	12.9
Federal Revenue	400,581	446,671	436,928	395,425	(11.5)
Total Funds	$755,669	$1,153,743	$1,218,890	$1,177,060	2.0

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. Community Arts Project Grants	$(20,000)	-0-
2. Decrease Operating Expense	$(5,815)	-0-

The Montana Arts Council was created in 1967 to encourage the study and presentation of the arts, foster public interest in our cultural heritage and resources, and encourage and assist in freedom of artistic expression. Services include the administration of federal and coal tax supported grants, special project administration, and the provision of technical assistance to grant recipients.

Personal services increase $33,568 or 36.2 percent in fiscal 1987 as compared to fiscal 1985 due to pay plan increases and the addition of a .50 FTE a grade 12 accountant, whose duties include grant administration. A cultural and aesthetic grant of $45,000 for the Folklore Project was included in the operating expenses for fiscal 1985 and, not included in the fiscal 1987 operating budget, resulting in the decrease

of 17.1 percent in operating expenses. The Arts Council did not request any equipment for the 1987 biennium. Non-operating costs include federal grant funds of $148,600 from the National Endowment for the Arts, $646,606 cultural and aesthetic grants, and $20,000 in general fund.

ISSUE 1: GENERAL FUND GRANTS

Community grants total $794,776 in fiscal 1987 and are made up of three sources: 1) federal funds from the National Endowment for the Arts of $128,171, or 16 percent of the total funding, 2) a cultural and aesthetic grant of $646,605, or 81.3 percent of the total, and a general fund appropriation of $20,000, or 2.5 percent of the total.

The Montana Arts Council designated $8,000 of the $20,000 general fund appropriation for underwriting grants. The agency refers to the underwriting grants as "courage" money, in that a community may want to bring a performing artist to their locality, but be afraid of losing money if the performance does not generate enough support. The Montana Arts Council will give a grant of up to either 20 percent or $400 of the cost to sponsor the performing artist. If the community makes a profit from the performance, the underwriting grant money is returned to the arts council. If the performance does not make a profit, the community retains the grant money.

The remaining $12,000 of general fund is for community grants. The grants must be used for charitable and educational purposes. There is no distinction made between the criteria used to distribute general fund grants and the criteria used to distribute federal or other state funds.

If the legislature deleted the $20,000 in general fund appropriated for community grants, funds would still be available through federal and cultural and aesthetic grant funds.

Option A: Delete the $20,000 of general fund for community grants in fiscal 1987.

Option B: Take no action.

ISSUE 2: DECREASE OPERATING EXPENSE

In compliance with the Governor's request of April 1, 1986, the Montana Arts Council submitted for analysis proposed 5 percent reductions for fiscal 1987.

The council deleted $3,460 from the administration program and $2,355 from special programs. According to the council, the $5,815 reduction proposal "will cause a general tightening of our overall operation, but will not severely effect any of our current programs." Table 1 illustrates the reductions proposed by the arts council.

Table 1
5 Percent Reduction to Operating Funds in Fiscal 1987

	Administration			Special Programs		
Expenditure	Approp.	Cut	Revised	Approp.	Cut	Revised
Contract Services	$8,603	$ 676	$ 7,927	$139,002	$1,781	$137,221
Supplies	4,286	337	3,949	20,139	258	19,881
Communications/ Transportation	7,179	564	6,615	5,103	65	5,038
Travel	15,469	1,214	14,255	12,040	154	11,886
Rent	7,051	554	6,497	5,727	73	5,654
Repair/Maintenance	412	32	380	750	10	740
Other Expenses	1,057	83	974	1,114	14	1,100
Total	$44,057	$3,460	$40,597	$183,875	$2,355	$181,520

For the Administration Program the proposed decrease of $3,460 represents 2.7 percent of the total operating budget. For the special programs the proposed decrease of $2,355 represents 1 percent of the total operating budget.

Option A: Decrease the general fund appropriation for operating costs by $3,460 in the administration program and by $2,355 in special programs for a total reduction of $5,815.

Option B: Take no action.

MONTANA HISTORICAL SOCIETY

Budget Items	Fiscal 1987 House Bill 500	Fiscal 1987 Governor's Budget	Fiscal 1987 Difference
F.T.E.	52.50	52.50	0.00
Personal Service	$1,178,562	$1,127,844	$(50,718)
Operating Expense	718,022	713,078	(4,944)
Equipment	21,473	21,473	-0-
Total Operating Costs	$1,918,057	$1,862,395	$(55,662)
Non-Operating Costs	610,000	610,000	-0-
Total Expenditures	$2,528,057	$2,472,395	$(55,662)
General Fund	$1,113,240	$1,057,578	$(55,662)
State Special	-0-	-0-	-0-
Federal Revenue	1,055,222	1,055,222	-0-
Proprietary	359,595	359,595	-0-
Total Funding	$2,528,057	$2,472,395	$(55,662)

ISSUES IN GOVERNOR'S BUDGET - Fiscal 1987	General Fund	Other Funds
Gov. 1. Governor's 5 Percent Cut		
A. Administration	$(18,132)	-0-
B. Library	$(5,129)	-0-
C. Museum	$(7,327)	-0-
D. Publications	$(1,466)	-0-
E. Historic Sites Preservation	$(2,564)	-0-
F. Archives	$(6,960)	-0-
G. Education (Tours)	$(14,084)	-0-

ISSUE GOV. 1: 5 PERCENT CUT

Approximately $50,718 of the budget cuts will be taken from personal services. The Historical Society stated their plan was to invoke a hiring freeze to meet the budget reduction. If savings do not materialize, there will be layoffs or the reduction of operating expenses.

The remaining $4,944 of the budget cut will come from building rent. General Services Division has decreased the building rent by 2 percent.

MONTANA HISTORICAL SOCIETY

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	48.57	52.00	52.50	52.50	0.5
Personal Service	$1,000,906	$1,125,198	$1,212,119	$1,275,578	13.4
Operating Expense	528,425	601,616	978,622	729,598	21.3
Equipment	18,983	38,250	501,606	22,973	(39.9)
Total Operating Costs	$1,548,314	$1,765,064	$2,692,347	$2,028,149	14.9
Non-Operating Costs	631,618	361,771	595,000	610,000	68.6
Total Expenditures	$2,179,932	$2,126,835	$3,287,347	$2,638,149	24.0
Fund Source					
General Fund	$ 979,892	$1,047,407	$1,223,627	$1,154,035	10.2
State Special	38,127	40,078	197,969	47,968	19.7
Federal and Other	885,054	697,500	1,503,476	1,070,353	53.5
Proprietary	276,859	341,850	362,275	365,793	7.0
Total Funds	$2,179,932	$2,126,835	$3,287,347	$2,638,149	24.0

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. Montana Magazine	$(41,809)	$41,809
2. Indirect Costs		
Option A.	$(13,233)	$13,233
Option B.	$(11,125)	$11,125
3. Capitol Building Tours		
Option A.	$(28,168)	-0-
Option B.	$(13,033)	-0-
4. 2 Percent Cuts	$(23,081)	-0-

The Montana Historical Society was established in 1865. Its purpose is to acquire, preserve, and protect historical records, art, archival and museum objects, and historical places, sites and monuments for the use and enjoyment of the citizens of Montana.

FTE increase by .5 FTE between fiscal 1985 and 1987. Fiscal 1985 contains 8.0 FTE which were added to the agency by budget amendment. The legislature retained

4 FTE of these 8 and then added an additional 4.5 FTE for a total of 8.5 FTE. The FTE added were: 1.0 FTE accountant and .5 FTE clerk in the administration program; 2.5 FTE in the museum for renovation work; .5 FTE photographer in the archives program; 2.0 FTE in publications for book publishing; and, 2.0 FTE in historic preservation for historic sites work.

Personal services increase by 13.4 percent or $150,380 between fiscal 1985 and 1987. This results from upgrading ten positions at a cost of $18,255, adding an additional .5 FTE at approximately $12,600, pay plan allocation of $62,124, and vacancy savings of $64,000 realized in fiscal 1985.

Operating expenses increase by $127,982 or 21.3 percent. This increase is comprised of a rent increase of $38,300 for the building addition, $47,893 for operating costs to renovate the museum, an additional $13,033 for tour guides for the next regular session, and inflation of $35,000.

Equipment increased in fiscal 1986 to reflect the purchase of the C. M. Russell art for $482,000. This was authorized in House Bill 961.

Non-operating expenses increase by $248,229. This reflects an increase in grant monies going to local communities for restoration and preservation of historic sites. The source of these funds is the historic sites grant from the National Park Service.

Federal and donated fund increases reflect the increased historic sites grants of $248,229, plus donation increases of approximately $140,000. Table 1 shows the appropriations by program for fiscal 1987.

Table 1
Fiscal 1987 Appropriation by Program

Program	General Fund	State	Federal	Proprietary	Total
Administration	$ 402,390	$ -0-	$ 74,489	$ -0-	$ 476,879
Library	155,949	-0-	34,067	-0-	190,016
Museum	229,509	-0-	112,106	-0-	341,615
Publications	41,809	-0-	-0-	365,793	407,602
Historic Sites	76,914	-0-	764,111	-0-	841,025
Archives	218,491	47,968	18,658	-0-	285,117
Education	28,973	-0-	66,922	-0-	95,895
Total Agency	$1,154,035	$47,968	$1,070,353	$365,793	$2,638,149

ISSUE 1: FUND MONTANA THE MAGAZINE OF WESTERN HISTORY TOTALLY BY PROPRIETARY FUND

Montana the Magazine of Western History is a historical society magazine published four times a year. This publication is funded by both the general fund and the magazine proprietary fund. The general fund appropriation for fiscal 1987 is $41,809. General fund began subsidizing the magazine in the 1981 biennium. Prior to fiscal 1980, the magazine was funded by revenues generated from magazine sales. The intent of the 46th legislature was that the magazine continue to be self-supporting. This is stated in the legislative fiscal analyst 1981 biennium Appropriations Report:

> Although general fund is appropriated to cover magazine expenses, the magazine program is to strive to be self-supporting.

This is further evidenced by the fact that the magazine is funded primarily by an enterprise proprietary fund. Section 17-2-102, MCA defines the proprietary fund:

> (b) proprietary fund category, which includes;
> (i) the enterprise fund type, which accounts for operations:
> (A) that are financed and operated in a manner similar to private business enterprises whenever the intent of the legislature is that costs (i.e., expenses, including depreciation) of providing goods or services to the general public on a continuing basis are to be financed or recovered primarily through user charges;

Every year since fiscal 1980, there has been a general fund appropriation to help support the magazine as shown in table 2.

Table 2
Montana Magazine Funding Fiscal Years 1980 to 1987

Fiscal Year	Proprietary Fund Appropriation	General Fund Appropriation	Total Funding	General Fund Percent
1980	$121,110	$13,059	$134,169	9.7
1981	133,221	4,539	137,760	3.3
1982	131,392	35,162	166,554	21.1
1983	144,278	36,827	181,105	20.3
1984	135,169	37,510	172,679	21.7
1985	178,321	39,529	217,850	18.1
1986	152,359	41,320	193,679	21.3
1987	142,221	41,809	184,030	22.7

Subscriptions to the magazine have increased 14.3 percent from fiscal 1985 to fiscal 1987. However, most of this increase is due to 1,100 special subscriptions by the Western Historical Association in fiscal 1986. Table 3 illustrates the number of paid subscribers to the magazine since fiscal 1981.

Table 3
Subscribers to Montana Magazine from Fiscal 1981 to 1986

	Fiscal 1981	Fiscal 1982	Fiscal 1983	Fiscal 1984	Fiscal 1985	Fiscal 1986
No. of Subscribers	9,103	8,259	9,007	9,905	9,080	10,404

The price of the magazine has not increased since fiscal 1981, but has remained constant at $15.00 per year or $4 per single copy. However, during that same time period, the cost of the program has gone from $137,760 a year to $193,679 which is a 40.6 percent increase.

The total cost of the magazine publication program is projected to be $193,679 for fiscal 1986. The projected number of magazines to be printed is 52,000 copies which gives a cost of $3.72 per copy. The majority of sales are one year

subscriptions at an average price of $12 per year because of special sales promotions. A $12 per year subscription price would equate to income of $3 per copy. In fiscal 1985, the merchandise inventory (unsold magazines) was increased by $14,000 which indicates approximately 3,500 magazines were not sold. If the same number of magazines are not sold in fiscal 1986, 48,500 of the 52,000 copies will be sold; therefore, the cost of each magazine sold is approximately $4 per copy. There would be an average loss of $1 per copy or an annual loss of $48,000. This shortfall is covered by the general fund appropriation of $41,809 and approximately $5,000 of advertising revenues generated each year.

Table 4 shows the proprietary fund operations for fiscal years 1985 to 1987.

Table 4
Historical Society Magazine Proprietary Account
Fund Balance, Revenues and Expenditures
Fiscal Years 1984 to 1987

	Actual FY 1984	Actual FY 1985	Projected FY 1986	Projected FY 1987
Beginning Fund Balance	$ 4,735	$ 5,637	$ 4,544	$ 4,185
Revenues	108,854	158,435	152,000	152,000
Total Funds Available	$ 113,589	$ 164,072	$ 156,544	$ 156,185
Expenditures	$ 107,951	$ 159,528	$ 152,359	$ 152,000
Useable Fund Balance	$ 5,638	$ 4,544	$ 4,185	$ 4,185
Add: Merchandise Inventory	40,717	54,803	68,803	unknown
Fixed Assets	5,456	5,216	5,578	unknown
Less: Deferred Revenues	(115,175)	(109,187)	(127,101)	(unknown)
Ending Fund Balance	$ (63,364)	$ (44,624)	$ (48,535)	unknown

Table 4 shows the useable fund balance remaining relatively constant, however, it points out that the prepaid subscriptions (deferred revenues) at $127,101 in fiscal 1986 with only approximately $4,200 of liquid assets to cover this liability. The merchandise inventory represents the value of unsold magazines.

It is apparent the magazine program will not be self-supporting unless steps are taken to increase the selling price, cut production costs, and/or generate other revenues from the program. The legislature may want to insure this action by eliminating the general fund appropriation and increasing the proprietary fund appropriation by $41,809 for fiscal 1987.

Option A: Delete general fund appropriation of $41,809 and increase the other fund appropriation by a like amount for fiscal 1987.

Option B: Take no action.

ISSUE 2: FUNDING SWITCH

The administration program is responsible for providing the overall management and support services for the Montana Historical Society. These services include accounting, budget, payroll, and personnel. The fiscal 1987 budget for this program is shown in table 5.

Table 5
Historical Society - Administration Program
Fiscal Year 1987

Category	Appropriation
FTE	12.50
Personal Services	$299,552
Operating Expenses	177,327
Equipment	-0-
Total Expenses	$476,879
General Fund	$402,390
Donated Funds	$ 74,489
Total Funding	$476,879

A number of other departments with multiple funding sources charge other funds within their agency for administrative costs. These include the Departments of

Commerce, Labor, and Health. The allocation of administration costs to a proprietary fund provides a better accounting for the costs of operation.

There are three proprietary funds within the agency's magazine program. These are the merchandizing account, the magazine account, and the society press account. Issue 1 illustrated that the magazine account is not in a position to pay any administrative costs at this time. The society press operates as a support service to the merchandizing account and is not really a proprietary account in the true sense. Therefore this issue will only be directed to the merchandizing account.

One method to distribute administrative costs is on the basis of personal services. Table 6 shows the personal services budgets by program for the society and the percentage of each to the total budget.

Table 6
Historical Society - Personal Services Budget Program
Fiscal Year 1987

Program	Budget	Percent of Total
Administration	$ 299,552	23.4
Library	125,838	9.9
Museum	227,705	17.9
Magazine	141,709	11.1
Historic Sites Preservation	173,208	13.6
Archives	253,648	19.9
Education	53,918	4.2
Total	$1,275,578	100.0

The merchandizing proprietary account funds 2.0 FTE and is 25 percent of the magazine program. Therefore it represents 2.8 percent of the total budget. Application of this rate would result in a general fund savings of $13,233.

Another method to distribute costs would be to use the federal indirect cost rate. This rate, approved for the Montana Historical Society for fiscal 1986 by the Department of Interior, is 31.6 percent applied only to personal services. Personal

services for fiscal 1987 will be approximately $35,206. Applying the federal indirect cost rate would yield a general fund savings of $11,125.

Table 7 shows the merchandizing account's fund balance, revenues, and expenditures for fiscal years 1984 through 1987. Fiscal 1986 is based on projected revenues and expenditures using April 1986 SBAS records. Fiscal 1987 expenditures and revenues reflect the appropriated level.

Table 7
Montana Historical Society Merchandizing Operation
Fiscal 1984 - 1987

	Actual FY 1984	Actual FY 1985	Projected FY 1986	Projected FY 1987
Beginning Fund Balance	$ 16,846	$ 50,119	$ 59,822	$ 76,563
Revenues	133,001	166,838	192,000	146,341
Total Funds Available	$149,847	$216,957	$251,822	$ 222,904
Expenditures	99,728	157,135	175,259	146,341
Useable Fund Balance	$ 50,119	$ 59,822	$ 76,563	$ 76,563
Add: Merchandise Inventory	88,075	97,302	97,302	unknown
Fixed Assets	13,997	11,539	11,539	unknown
Ending Fund Balance	$152,191	$168,663	$185,404	unknown

To reflect the actual cost of the program, based on the availability of funds, the legislature may wish to fund a part of the administrative costs from the merchandizing fund account. Applying either allocation method would result in a reduction in general fund for fiscal 1987.

Option A: Increase the merchandizing fund appropriation by $13,233 and decrease the general fund appropriation by a like amount to charge administration expenses to the merchandizing program using the personal services allocation.

Option B: Increase the merchandizing fund appropriation by $11,125 and decrease

the general fund appropriation to change administrative expenses to the merchandising program by using federal indirect cost rate.

Option C: Take no action.

ISSUE 3: CAPITOL TOURS

Part of the historical society's education program is the capitol tours program. This program provides tours of the capitol building during the legislative session and the summer months. This program was transferred from General Services Division to the Montana Historical Society in fiscal 1983. Table 8 shows the 1987 budget for this program.

Table 8
Historical Society - Capitol Tours Program Budget
Fiscal Year 1987

Category	Budget
FTE	1.5
Personal Service	$20,397
Operating Expenses	7,771
Total Cost and General Fund Appropriation	$28,168

The 49th Legislature increased the fiscal 1987 budget for this program by $13,033 for additional tour guides for the 1987 session.

The legislature may want to postpone the increase for this program, or suspend the program in fiscal 1987, due to the general fund revenue shortfall. The deletion of this program was proposed by the Historical Society as one of the programs to be eliminated in the Governor's 5 percent cuts.

Option A: Delete the program for fiscal 1987 for a general fund savings of $28,168.

Option B: Delay the hiring of additional tour guides in fiscal 1987 for a

general fund savings of $13,033.

Option C: Take no action.

ISSUE 4: 2 PERCENT CUTS

The Montana Historical Society's general fund budget was reduced by $21,911 for the 2 percent cuts in fiscal 1986 by executive order. These cuts were made to personal services in all programs. Since the agency has adjusted to operate within the reduced appropriation in fiscal 1986, a similar 2 percent reduction can be made in fiscal 1987. This would yield a general fund savings of $23,081.

Option A: Reduce the fiscal 1987 general fund appropriation by 2 percent, making a savings of $23,081.

Option B: Take no action.

MONTANA STATE LIBRARY COMMISSION

Budget Items	Fiscal 1987 House Bill 500	Fiscal 1987 Governor's Budget	Difference
F.T.E.	25.50	25.50	0.00
Personal Service	$ 577,498	$ 557,400	$20,098
Operating Expense	308,857	301,751	7,106
Equipment	97,494	97,494	-0-
Total Operating Costs	$ 983,849	$ 956,645	$27,204
Non-Operating Costs	610,792	588,483	22,309
Total Expenditures	$1,594,641	$1,545,128	$49,513
General Fund	$ 544,074	$ 516,870	$27,204
State Special	446,175	423,866	22,309
Federal and Other Special	604,392	604,392	-0-
Total Funding	$1,594,641	$1,545,128	$49,513

ISSUES IN GOVERNOR'S BUDGET - Fiscal 1987	General Fund	Other Funds
Gov. 1. Governor's 5 Percent Cut		
A. Reference and Information	$(20,098)	-0-
B. Library Development	$(7,106)	$(22,309)

ISSUE GOV. 1: 5 PERCENT CUT

The Library will reduce the 3.0 FTE professional librarians in the reference and information program by 1.0 FTE. The library maintains that the reduction will cause some delays in service.

The library will reduce the contract for public library film service with the Butte-Silver Bow Public Library by $7,106. As a result of reducing the coal tax grant appropriation $22,309, the following basic library services for the library federations will be reduced: interlibrary loan service, reference service to small public libraries, continuing education at local libraries, and the provision of book and materials. Coal tax of $352,815 remains to fund the library federation grants.

MONTANA STATE LIBRARY COMMISSION

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	25.50	25.50	25.50	25.50	0.00
Personal Service	$ 549,014	$ 547,789	$ 587,218	$ 609,837	11.3
Operating Expense	300,679	373,667	448,869	421,638	12.8
Equipment	97,853	92,504	103,523	97,494	5.4
Total Operating Costs	$ 947,546	$1,013,960	$1,139,610	$1,128,969	11.3
Non-Operating Costs	501,313	728,370	805,420	610,792	(16.1)
Total Expenditures	$1,448,859	$1,742,330	$1,945,030	$1,739,761	(.15)
Fund Source					
General Fund	$ 527,185	$ 582,779	$ 542,322	$ 559,732	(4.0)
State Special	414,026	441,335	637,421	563,773	27.7
Federal Revenue	507,648	718,216	765,287	616,256	(14.2)
Total Funds	$1,448,859	$1,742,330	$1,945,030	$1,739,761	(.15)

ISSUES - Fiscal 1987	General Fund	Other Funds
1. Reduce Book Purchases	$(35,451)	-0-
2. Cut 1 FTE Librarian	$(22,731)	-0-
3. Institutional Library Services	$(7,502)	-0-
4. Film Service Contract		
Option A	$(11,572)	-0-
Option B	$(7,106)	-0-

The Montana State Library provides direct library services to state government agencies, persons residing in state institutions, and the blind and physically handicapped public of Montana. Indirect services are provided to all public libraries by providing grants to six regional library federations. The state library serves as a partial federal depository and also collects state government publications.

The increase to personal services in fiscal 1987 as compared to fiscal 1985 is due to the inclusion of pay plan and the upgrading of one position at a general fund cost of $9,576 in fiscal 1987. Operating expenses increase 12.8 percent in fiscal 1987 from

fiscal 1985, largely due to the $225,561 biennial grant for the Natural Resource Information System - Natural Heritage Program from House Bill 860 being included in fiscal 1986 and 1987 on the main table. Non-operating costs include grants from coal severance tax grant and federal Library Services and Construction Act. These funds are used by the State Library Commission to make grants to the six library federations and local libraries.

General fund decreases 4 percent between fiscal 1985 and fiscal 1987 due to a $33,329 supplemental appropriation in fiscal 1985 to pay for the Crabtree decision. State special revenue funds in fiscal 1986 include a $75,000 grant from the Department of Fish, Wildlife, and Parks. Federal revenue in fiscal 1986 includes a $75,140 private grant from the Nature Conservatory. Both of these appropriations are for the biennium and are to be used to complete the Natural Resource Information System. The library also received a $225,561 biennial appropriation in Resource Indemnity Trust interest funds from the Department of Natural Resources and Conservation for the planning and development of the Natural Heritage Program and the National Resource Information System. Federal revenue decreased $101,960 or 14.2 percent. Total funding for the agency decreased $2,570, or .15 percent between fiscal 1985 and fiscal 1987.

ISSUE 1: REDUCE BOOK PURCHASES

The Reference and Information Service Program provides: (1) housing for the Montana State Library collections other than materials for the blind, physically handicapped, and collections housed in state institutions; (2) identification and lending of library materials owned by the state library; (3) answers to reference questions; (4) specific subject bibliographies; and (5) inter-library loan services.

The equipment budget for this program allows $84,505 in fiscal 1986 and $88,626 in fiscal 1987 for the purchase of books and reference materials.

The Reference and Information Service Program utilizes approximately 60 percent of the total equipment budget, or $53,175 in fiscal 1987, for periodicals and on-going subscriptions. Forty percent of the total equipment budget, or $35,451, is used to buy books.

Decreasing the equipment budget for the Reference and Information Service Program by $35,451 in fiscal 1987 would allow this program to continue its subscriptions for periodicals and on-going subscriptions. The Reference and Information Service Program would not purchase books in fiscal 1987.

Option A: Decrease the equipment budget for the Reference and Information Service Program by $35,451.

Option B: Take no action.

ISSUE 2: CUT 1 FTE LIBRARIAN

The Reference and Information Service Program (as described in Issue 1) utilizes 3.25 FTE professional librarians, 1 FTE supervisor, and 3 FTE clerks. Three FTE librarians are utilized by other library programs for a percentage of their time. Two FTE librarians spend 75 percent of their combined time in the Library Development Services Program and one FTE librarian spends 50 percent of the time in the Technical Services Program. When working in other library programs, the 3 FTE librarians are supposed to work on activities which are "reference" oriented. The reference and information supervisor can keep the 3 FTE librarians rather than have them go to another program if there is a workload or scheduling problem. Utilization of staff in this manner has resulted in a general turnaround of reference material within 16 working hours of the library first receiving the request. Turnaround is faster during the "slow" summer months when requests for information decrease.

The reduction of 1 FTE librarian in fiscal 1987 would result in a general fund savings of approximately $22,731, which is the equivalent of a grade 14, step 2 with no pay plan. The library has indicated the reduction of 1 FTE is possible, but that

there may be a delay in answering requests and that workload will increase for those library programs utilizing a percentage of the 3 FTE positions.

Option A: Decrease the Reference and Information Services program by 1 FTE librarian for a general fund savings of $22,731.

Option B: Take no action.

ISSUE 3: INSTITUTIONAL LIBRARY SERVICES

The Institutional Library Services Program provides library services to residents of state institutions by contract through the nearest public library or directly from the Montana State Library. The program received an equipment budget amounting to $10,873 in each year of the biennium to purchase library materials for state institutions. Thirty-one percent of the allocated funds, or $3,371, is used for periodicals and on-going subscriptions. Sixty-nine percent, or $7,502, is used to purchase books.

Maintaining periodicals and on-going subscriptions for institutions would require $3,371 in equipment funding. If no new book purchases are made in fiscal 1987, $7,502 could be deleted.

Option A: Decrease the equipment budget by $7,502 in fiscal 1987.

Option B: Take no action.

ISSUE 4: FILM SERVICE CONTRACT

In fiscal 1987, $11,572 was appropriated for the public library film service contract with the Butte-Silver Bow Public Library. Montana State Library has 500 films, which are available to the 130 libraries in the state for distribution to specific interest groups. In fiscal 1985, 67 libraries requested films, which were then distributed to 219 groups. According to the state library, the greatest utilization of the service is for children story hours and nursing homes.

The $11,572 appropriated for this contracted film service is used to pay the Butte-Silver Bow Public Library to provide space to store the films, help support one

.50 FTE clerk, publish a catalog, and purchase new films. A fee of $3.00 for films 15 minutes or longer and $2.00 for films under 15 minutes is charged by the library for film rentals to cover postage and repair costs. The service generated fees of $7,693 in fiscal 1985 and $4,060 for fiscal 1986 year-to-date.

If the general fund appropriation was deleted, libraries and special interest groups would not be without service. The OPI audio-visual library also has films geared towards children and senior citizens for public use. Also, the OPI audio-visual staff has stated that the library films at Butte-Silver Bow Public Library could be moved to the OPI library. Storage space is available and OPI feels that the current level of usage regarding these films would not require additional staffing. Utilization of the OPI audio-visual library could help the agency program, since as noted in the OPI agency report under Issue 2, use of the audio-visual library is below the anticipated level.

In a memo from the state library to the Office of Budget and Program Planning dated April 28, 1986, the library indicates that the appropriation for the film service could be reduced by $7,106, or 61.4 percent and the program still remain functional. The library did not specify what would be cut by the decrease, but the library has verbally indicated that Butte may be able to pick up part of the difference if general fund was removed.

Option A: Reduce the general fund appropriation by $11,572 in fiscal 1987 for the film service contract and move the films to the Office of Public Instruction audio-visual film library.

Option B: Reduce the general fund by $7,106 and leave the film library in Butte.

Option C: Take no action.

HIGHER EDUCATION

HIGHER EDUCATION

Governor's Issues	General Fund % Cut	Fiscal 1987 General Fund	Fiscal 1987 Other Funds	Fiscal 1987 Total
Issue 1: Across the Board Cuts				
Board of Regents	5.0	$ 1,173	$ -0-	$ 1,173
Commissioner of Higher Education	5.0	130,986	-0-	130,986
Community Colleges	5.0	160,920	-0-	160,920
Agricultural Experiment Station	5.0	297,112	-0-	297,112
Bureau of Mines and Geology	5.0	74,302	-0-	74,302
Cooperative Extension Service	5.0	109,433	-0-	109,433
Forest Experiment Station	5.0	33,479	-0-	33,479
University System - 6 units	5.0	3,613,586	-0-	3,613,586
Total Across-the-Board Cuts		$ 4,420,991	$ -0-	$ 4,420,991
Issue 2: MBA Program in Billings		$ 266,241	$ -0-	$ 266,241
TOTAL GOVERNOR'S CUTS		$ 4,687,232	$ -0-	$ 4,687,232
LFA Policy Options				
Commissioner of Higher Education				
1. Administration		$ 40,031	$ -0-	$ 40,031
2. Salary Reductions		93,917	-0-	93,917
3. WAMI		40,319	-0-	40,319
4. State Special Revenue		1,045,731	(1,045,731)	-0-
5. WICHE & Minn. Rural Dentistry		180,800	-0-	180,800
6. Student Payments		690,240	-0-	690,240
7. State Work Study		291,000	-0-	291,000
Community Colleges		896,660	-0-	896,660
Agricultural Experiment Station		861,740	-0-	861,740
Cooperative Extension Service				
1. Administrative Consolidation		568,923	-0-	568,923
2. Extension Specialists		318,896	-0-	318,896
3. Classified Personnel		133,787	-0-	133,787
4. Equipment		3,932	-0-	3,932
University System				
1. Declining Enrollments		3,372,937	1,452,982	4,825,919
2. Reduce Formula Support		1,860,909	-0-	1,860,909
3. Use Mill Levy Fund Balance		4,807,819	(4,807,819)	-0-
TOTAL LFA OPTIONS		$15,207,641	$(4,400,568)	$10,807,073
COMBINED GOVERNOR'S CUTS AND LFA OPTIONS		$19,894,873	$(4,400,568)	$15,494,305
LESS: Duplicated Cuts		(4,151,116)	-0-	(4,151,116)
TOTAL UNDUPLICATED REDUCTION OPTIONS		$15,743,757	$(4,400,568)	$11,343,189

GOVERNOR'S ISSUE 1: ACROSS THE BOARD CUTS

The Governor applied 5 percent across-the-board general fund cuts to the university system agencies. Education trust interest income and the six mill property levy were exempted from the reductions. The total across-the-board general fund reduction proposed by the Governor is $4,420,991.

GOVERNOR'S ISSUE 2: MBA PROGRAM IN BILLINGS

The Governor has proposed delaying implementation of the Master's of Business Administration program in Billings which was approved by the 1985 legislature. The Governor cites an uncompleted role and scope study, including the examination of program and course offering redundancy, currently being performed by the Board of Regents and notes that program expansion is not fiscally responsible outside the context of total system evaluation.

LFA POLICY OPTIONS

The Legislative Fiscal Analyst has presented several policy issues for Legislative consideration. These are described in detail in each agency's analysis report.

DUPLICATED CUTS

There are $4,151,116 of duplicated reductions proposed in the Governor's across-the-board-cuts and the Legislative Fiscal Analyst's policy options. The duplication occurs in the Commissioner of Higher Education Office, the Agricultural Experiment Station, the Cooperative Extension Service, and the six units.

The five percent general fund reduction in the Commissioner's office will reduce funding for administration, state work study, and Minnesota Rural Dentistry. These issues are also included in the LFA program analysis.

The 5 percent general fund reduction in the Agricultural Experiment Station, and Cooperative Extension Service amounts to $406,545.

The LFA policy options for these two agencies total $1,887,278. Although information on the impact to these two agencies resulting from a 5 percent cut was not provided, several fiscal policy issues addressed by the LFA could duplicate a 5 percent reduction.

The majority of duplicated cuts, $3,613,586, is within the six units. The Governor has recommended 5 percent general fund across-the-board cuts for the six units. The LFA policy options address three issues resulting in a cumulative 13.8 percent general fund reduction.

The duplicated cuts are detailed on Table 1.

Table 1
Duplicated General Fund Cuts in Governor's Budget and LFA Policy Options
Montana University System

Agency Function	Gov. 5% Cut	LFA Policy Option	Amount Duplicated
1. Commissioner of Higher Education			
Administration	40,031	40,031	40,031
Minnesota Rural Dentistry	22,200	33,300	22,200
State Work Study	68,754	291,000	68,754
2. Agricultural Experiment Station	297,112	861,740	297,112
3. Cooperative Extension Service	109,433	1,025,538	109,433
4. Six Units	3,613,586	10,041,665	3,613,586
Total Duplicated Cuts			$4,151,116

BOARD OF REGENTS

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
Personal Service	$ 5,525	$ 7,025	$ 5,500	$ 5,525	(21.3)
Operating Expense	18,914	18,622	17,139	17,940	(3.7)
Total Expenditures	$24,439	$25,647	$22,639	$23,465	(8.5)
Fund Source					
General Fund	$24,439	$25,647	$22,639	$23,465	(8.5)

The Board of Regents supervises, coordinates, manages, and controls Montana's University System and three community colleges pursuant to the 1972 Montana Constitution, Article X, Section 9, Subsection (2).

There are no agency employees and about 70 percent of the total budget is spent on per diem and in-state travel for board members. The 8.5 percent decrease from fiscal 1985 to fiscal 1987 occurs primarily because the legislature reduced budgeted board meetings from 13 to 12 one-and-one-half day sessions in each year of the 1987 biennium.

COMMISSIONER OF HIGHER EDUCATION

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	24.50	26.08	26.50	26.50	.42
Personal Service	$ 764,597	$ 821,930	$ 855,096	$ 886,226	7.8
Operating Expense	680,355	684,988	1,253,202	1,308,230	91.0
Equipment	8,533	29,420	9,894	10,307	(65.0)
Total Operating Costs	$1,453,485	$1,536,338	$2,118,192	$2,204,763	43.5
Non-Operating Costs	4,171,019	4,500,782	4,658,138	4,710,438	4.6
Total Expenditures	$5,624,504	$6,037,120	$6,776,330	$6,915,201	14.5
Fund Source					
General Fund	$3,069,665	$2,839,588	$2,841,870	$2,649,904	(6.7)
State Special	1,686,455	2,248,334	2,421,642	2,681,373	19.3
Federal Revenue	703,075	949,198	1,512,818	1,583,924	66.9
Other Funds	165,309	-0-	-0-	-0-	-0-
Total Funds	$5,624,504	$6,037,120	$6,776,330	$6,915,201	14.5

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. Administration	$(40,031)	-0-
2. Salary Reductions		
Option A.	$(93,917)	-0-
Option B.	$(50,683)	-0-
3. WAMI	$(40,319)	-0-
4. State Special	$(1,045,731)	$1,045,731
5. WICHE & Minnesota Rural Dentistry		
Option A.	$(48,400)	-0-
Option B.	$(88,000)	-0-
Option C.	$(44,400)	-0-
6. Student Payments		
Option A.	$(690,240)	-0-
Option B.	$(178,848)	-0-
Option C.	$(172,560)	-0-
Option D.	$(44,712)	-0-
7. Work Study	$(291,000)	-0-

The Commissioner of Higher Education is the chief administrative officer of the university system, appointed by the Board of Regents. The four programs in this agency are Administration, Student Assistance, Talent Search, and Guaranteed

Student Loan. The Montana Career Information System Program, which was transferred to the Department of Labor and Industry at the end of fiscal 1985, is removed from the entire table for consistency.

The .42 FTE increase in fiscal 1986 is for the federal Guaranteed Student Loan Program, with the 7.8 percent personal services increase relating to this and to the pay plan. Operating expenses increase 91 percent, primarily for student loan reserves and for office rent, which goes up by $16,137 each year of the 1987 biennium. Non-operating costs, which increase 4.6 percent from fiscal 1985 to 1987, are for student assistance.

The general fund decreases by 6.7 percent from fiscal year 1985 to 1987 because the interest on the coal tax education trust fund is supporting a greater portion of student assistance. State special revenue, which consists of coal tax education trust fund interest earnings, correspondingly increases 19.3 percent. Federal revenue increases 66.9 percent for student loans and grants and for the Talent Search Program.

ISSUE 1: ADMINISTRATION

The agency advised the Governor's Office that it could save 4.8 percent general fund, or $40,031, through reorganization of functions and through staffing reductions.

Option A: Reduce the general fund appropriation by 4.8 percent for a fiscal 1987 savings of $40,031.

Option B: Take no action.

ISSUE 2: SALARY REDUCTIONS

The Commissioner of Higher Education's office pays salaries significantly above comparable positions in the executive branch under the control of the Governor. Table 1 lists the current salaries and shows salaries for fairly comparable positions in

other state agencies. These positions have not been studied by the Department of Administration's personnel division for an indisputable classification comparison.

Table 1
Commissioner of Higher Education - Administration Program
Comparison of Salary to Comparable Agency Positions

Position	FTE	Salary	Full-Time Eq. Salary	Comparable Grade	Assumed Step	Comparable Salary	Difference
Deputy Comm. for Mgmt. and Fiscal Affairs	1.00	$53,083	$ 53,083	20	13	$ 42,638[1]	$10,445
Director of Special Projects & Community College Coordinator	.50	23,590	47,000	17	13	34,884[2]	12,116
Chief Legal Counsel	1.00	48,707	48,707	20	10	41,777[3]	6,930
Director Research and Services	1.00	39,954	39,954	17	11	32,821[2]	7,133
Financial Assistant	.80	26,043	32,429	15	11	27,643	4,786
Deputy Comm.for Academic Affairs	1.00	63,273	63,273	22	06	45,960[3]	17,313
Commissioner of Higher Education	1.00	72,036	72,036	--	--	50,695[4]	21,341
Director of Labor Relations	1.00	36,891	36,891	16	05	26,614[5]	10,277
Assistant Chief Counsel	1.00	36,429	36,429	18	11	35,798[6]	631
Total			$429,802			$338,830	$90,972

[1] Comparable to division administrator
[2] Comparable to bureau chief
[3] Comparable to chief legal counsel - Department of Social and Rehabilitative Services
[4] Comparable to deputy director - Department of Health
[5] Assumed comparable to agency director
[6] Between personnel officer and division administrator
Assumed comparable to lawyer IV

If all FTE were full time, the salary differential would be $90,972. As two positions are less than full time, the difference is $83,967. With benefits, total compensation for current agency salaries costs $93,917 more than for comparable positions in the remainder of the executive branch.

Option A: Reduce the salary and benefits funding for a general fund savings of $93,917.

Option B: Reduce the salary and benefits funding for all positions except the Commissioner of Higher Education and the deputy commissioner for academic affairs for a general fund savings of $50,683.

Option C: Take no action.

ISSUE 3: WAMI (WASHINGTON, ALASKA, MONTANA, IDAHO) PROGRAM

WAMI is a cooperative medical education program which enables Montana students to take their first year of classes at MSU and the balance of their education at the University of Washington School of Medicine. Community clinical phases are taught in Billings, Missoula, Kalispell, Whitefish, and Great Falls.

Table 2 shows the appropriation, expenditures, and cost per student for WAMI.

Table 2
WAMI Students Served, Appropriations, and Expenditures

	Fiscal 1985	Fiscal 1986	Fiscal 1987 Approp/Agency
Number of Students	60.0	60.0	60.0
Appropriated	$1,767,423	$1,853,635	$1,938,938
Expended	1,749,607	1,813,315	1,898,619
Difference	$ 17,816	$ 40,320	$ 40,319
Cost Per Student	$ 29,160	$ 30,222	$ 31,644

Agency representatives are projecting that the fiscal 1987 University of Washington cost for 60 students will total $1,898,619, or $40,319 less than the appropriation.

Option A: Reduce fiscal 1987 WAMI general fund appropriation by $40,319.

Option B: Take no action.

ISSUE 4: STATE SPECIAL COAL TAX FUND

The education coal tax trust fund interest earnings are used for student assistance. Table 3 shows a projected fiscal 1987 ending fund balance of $1,045,731 in the education coal tax trust fund interest earnings. It is possible, therefore, for the legislature to consider reducing the fiscal 1987 WAMI general fund appropriation and increasing the state special revenue appropriation by $1,045,731.

Table 3
Education Coal Tax Trust Fund Interest Earnings for WAMI and WICHE

Accounting Entity 2022	Fiscal 1985	Fiscal 1986	Fiscal 1987
Beginning Fund Balance	$1,138,821	$1,153,129	$1,183,114
Revenue	1,971,852	2,451,627	2,543,990
Total Funds Available	$3,110,673	$3,604,756	$3,727,104
Disbursements	1,957,544	2,421,642	2,681,373
Ending Fund Balance	$1,153,129	$1,183,114	$1,045,731

Option A: Reduce the fiscal 1987 WAMI general fund appropriation by $1,045,731 and increase the state special revenue fund appropriation by an equal amount.

Option B: Take no action.

ISSUE 5: WICHE AND MINNESOTA RURAL DENTISTRY

WICHE, Western Interstate Commission for Higher Education, is a cooperative program among 14 western states that enables students from Montana to enroll in out-of-state universities and pay resident tuition. Montana pays for WICHE slots in eight disciplines: dentistry, medicine, occupational therapy, optometry, osteopathic medicine, podiatry, public health, and veterinary medicine. Each state pays an annual support fee to the admitting school, ranging from a low of $3,900 for occupational therapy to a high of $22,000 for medicine, with an average appropriated cost of $13,689 in fiscal 1986 and $13,778 in fiscal 1987.

Through the Minnesota Rural Dentistry Program, students are guaranteed admission at the University of Minnesota for the WICHE support fee for dentistry students of $10,800 in fiscal 1986 and $11,100 in fiscal 1987.

There are 140 WICHE students and 10 Minnesota rural dentistry students in fiscal 1986, with 103 WICHE and eight Minnesota rural dentistry students planning to continue in fiscal 1987, according to agency representatives. The maximum number of new fiscal 1987 WICHE students considered by the Commissioner's office is 27, which would bring the total number to 130 in fiscal 1987. The commissioner's office reports that there are nine new students qualified for the Minnesota Rural Dentistry Program, for a total of 17 potential students in fiscal 1987. However, the Forty-Ninth Legislature determined there were to be only four beginning dentistry students between both WICHE and Minnesota rural dentistry. Table 4 shows the health field, number of students, and the cost for these programs.

Table 4
Fiscal 1987 WICHE And Minnesota Rural Dentistry Students

Field	Continuing Students	New Students	Cost/Slot	Cost Continuing	Cost New
Medicine	32	5	$22,000	$ 704,000	$110,000
Osteopathic Medicine	8	2	9,900	79,200	19,800
Dentistry - WICHE	4	2	11,100	44,440	22,200
Veterinary Medicine	36	12	14,300	514,800	171,600
Optometry	15	3	6,100	91,500	18,330
Occupational Therapy	4	1	3,900	15,600	3,900
Podiatry	3	1	6,900	20,700	6,900
Public Health	1	1	5,100	5,100	5,100
Dentistry - Minnesota	8	2	11,100	88,800	22,200
Total	111	29		$1,564,100	$380,000

The fiscal 1987 appropriation for WICHE and the Minnesota Rural Dentistry Program is $1,979,500, which is $35,400 more than required to fund the slots. In addition, of the students being considered by the Commissioner's Office, only two new

students have been accepted for WICHE optometry slots and no new students have been accepted for the podiatry slot, for an additional $13,000 savings. This brings the total savings for new student slots to $48,400 without denying any accepted student for which the 1985 legislature appropriated slots.

Table 5 summarizes the status of active physicians in nearby WICHE states.

Table 5
Active Physicians in WICHE States

State	1970 Physicians	Rate Per Pop.[1]	1982 Physicians	Rate Per Pop.	% Change 1970-1982
Oregon	2,803	134	4,904	184	75
Utah	1,377	130	2,563	164	86
Nevada	504	105	1,272	147	152
North Dakota	542	89	936	142	73
MONTANA*	679	99	1,052	132	55
Wyoming*	304	92	606	120	99
Idaho*	624	88	1,079	111	73
Average		105		142	
Montana as a % of Average		94.3%		93.0%	

*States supporting medical students.
[1]Rate of active physicians per 100,000 civilian population.

Table 5 shows that Montana, Wyoming, and Idaho are the only three states providing WICHE support for medical education. Montana has 132 active physicians per 100,000 civilian population, higher than Wyoming with a rate of 120 or Idaho with a rate of 111 physicians. However, Montana's growth in number of physicians from 1970 to 1982 has been 55 percent, less than any of these other states. It may be that the Wyoming and Idaho service or payback requirements for WICHE graduating physicians are contributing to an increase in the number of active physicians in those states. Neither the commissioner's office nor the regional WICHE office in Colorado has been able to determine how many Montana WICHE-supported physicians return to practice medicine in this state. It is clear that Montana's growth rate of physicians

is the lowest at a 55 percent increase from 1970 to 1982. It may be questioned how much the state will benefit from supporting five new medical students at a beginning cost of $22,000 each in fiscal 1987, in addition to 32 continuing WICHE medical students and 60 WAMI medical students who will cost $31,644 each at the University of Washington.

Statistically, Montana ranks 14th nationally in practicing dentists per 100,000 population and is 113 percent of the national average. Moreover, the federal government projects an over-supply of dentists until at least the year 2000. However, Montana will be supporting 16 dentistry students, 4 of whom are new students for fiscal 1987, in the Minnesota Rural Dentistry and WICHE dentistry programs.

Option A: Reduce the general fund $48,400 in the WICHE and Minnesota Rural Dentistry Program for no appropriated student slot reductions.

Option B: Reduce the WICHE new medical slots to one for a general fund savings of $88,000.

Option C: Eliminate the new dentistry slots for a general fund savings of $44,400.

Option D: Take any, all, or none of the options.

ISSUE 6: STUDENT PAYMENTS

If the Minnesota Rural Dentistry, WAMI, and WICHE students had to pay the difference between their out-of-state tuition and resident tuition to help fund the state's expense of reserving slots for them, the cost to the Montana taxpayer would be reduced. The students would be paying the out-of-state fees as do all other students who go to out-of-state schools. Table 6 compares the resident and nonresident tuition and fees for fiscal 1986 at the University of Minnesota School of Dentistry, the University of Washington School of Medicine, and ten universities in the WICHE program.

Table 6
Comparison of Average Resident and Nonresident Tuition and Fees

University	Average Resident Tuition and Fees	Average Nonresident Tuition and Fees	Out-of-State Fees
MRD - University of Minnesota	$6,414	$11,028	$4,614
WAMI - University of Washington	3,045	7,800	4,755
WICHE - University of Arizona	990	3,844	2,854
WICHE - University of California	1,326	5,162	3,836
WICHE - University of Colorado	1,590	4,836	3,246
WICHE - Colorado State University	1,590	3,522	1,932
WICHE - University of Nevada	1,080	3,280	2,200
WICHE - University of New Mexico	700	3,056	2,356
WICHE - Oregon Health Sciences Univ.	1,891	4,594	2,703
WICHE - University of Oregon	1,469	4,594	3,125
WICHE - University of Utah	1,203	3,693	2,490
WICHE - University of Washington	1,605	4,461	2,856
WICHE Average			$2,760

In Minnesota Rural Dentistry, the difference between resident and nonresident tuition, that is the out-of-state fees, is $4,614 for each student per year. Montana's total cost is $11,100 per student per year. The out-of-state fees for WAMI at the University of Washington are $4,755 and, by comparison, the total state support cost for WAMI is $31,644 per student per year. The average out-of-state fees at the sampling of ten universities in WICHE is $2,760 per year with the state's total cost averaging $13,778 per student per year.

If Montana were to require students to pay these out-of-state fees, students would pay $690,240 of the $3.9 million annual cost of these three student assistance programs. If only new students beginning in these programs paid out-of-state fees, the state savings would be $178,848 as shown in table 7.

Table 7
State Savings if Students Pay Out-of-State Tuition and Fees

Program	Student	Out-of-State Fee	State Savings
Minnesota Rural Dentistry	10	$4,614	$ 46,140
WAMI	60	4,755	285,300
WICHE	130	2,760	358,800
Total	200		$690,240

	New Student	Out-of-State Fee	State Savings
Minnesota Rural Dentistry	2	$4,614	$ 9,228
WAMI	20	4,755	95,100
WICHE	27	2,760	74,520
Total	49		$178,848

Other WICHE states have implemented payback/service requirements. Table 8 shows a summary of the requirements. A Legislative Fiscal Analyst staff report entitled "Service/Payback Requirements for Students in Interstate Student Assistance Programs" is available for detailed information.

Table 8
Service or Payback Requirements for State Support in the WICHE, WAMI, and Minnesota Rural Dentistry Programs

State	Requirement	Payback
Arizona	Service or Payback	50%
Colorado	Service or Payback	100% + interest
Idaho	Pay	$3,000 - WAMI
Nevada	Service or Payback	25% + 50% additional
Wyoming	Service or Payback	100%

Option A: Require MRD, WAMI, and WICHE students to pay their out-of-state tuition and fees beginning in fiscal 1987 for a general fund savings of $690,240.

Option B: Require new out-of-state MRD, WAMI, and WICHE students beginning in fiscal 1987 to pay their own out-of-state fees for a general fund savings of $178,848.

Option C: Require students to pay 25 percent of their out-of-state fees beginning in fiscal 1987 for a general fund savings of $172,560.

Option D: Require new students beginning in fiscal 1987 to pay 25 percent of their out-of-state fees for a general fund savings of $44,712.

Option E: Take no action.

ISSUE 7: DISCONTINUE STATE WORK STUDY PROGRAM

The 1983 legislature appropriated $290,790 in each year of the 1985 biennium to fund a State College Work Study Program. The 1983 legislature based the appropriation in fiscal 1984 and 1985 on a projected drop in federal work study funds from fiscal 1982 to 1983 of $290,790. The projected drop in federal work study funds did not occur as is indicated in table 9 on the following page. The legislature appropriated $291,000 in each year of the 1987 biennium, to be matched 30 percent or with $87,300 by the six units of the university system and the community colleges.

Table 9
Federal Work Study Expenditures for the Montana University System and Community Colleges
Fiscal 1982 - 1984*

University Unit	Fiscal 1982	Fiscal 1983	Fiscal 1984
Western Montana College	$ 183,047	$ 155,147	$ 198,325
Northern Montana College	66,911	46,006	64,516
Eastern Montana College	249,247	256,261	260,300
Montana College of Mineral Science and Technology	88,392	87,754	93,551
Montana State University	453,696	615,619	706,596
University of Montana	782,654	798,995	705,201
Miles Community College	7,153	5,913	7,203
Dawson Community College	16,366	13,786	18,764
Flathead Community College	32,955	25,310	33,368
Total	$1,880,421	$2,004,791	$2,087,824

*Source: SBAS fiscal year-end reports for units of the university system and phone survey of community colleges.

As indicated in table 9, federal work study expenditures increased by $124,370 or 7 percent between fiscal 1982 and 1983 for units of the university system and the community colleges. Federal work study expenditures in fiscal 1984 represent an increase from fiscal 1983 of $83,033, or 4 percent. Expenditures in fiscal 1985 were $2,094,042.

In conclusion, the 1983 legislature based the 1985 biennium appropriation for the State Work Study Program on a projected decrease in federal funding of $290,790. The projected decrease did not occur. Federal work study expenditures have been increasing rather than decreasing and the state College Work Study Program was also continued in the 1987 biennium.

Option A: Discontinue funding of the State Work Study Program for a general fund savings of $291,000 in fiscal 1987.

Option B: Take no action.

COMMUNITY COLLEGES

Expenditure By College	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Appropriated Fiscal 1987	% Change FY85-FY87
Dawson	$ 678,627	$ 736,200	$ 746,478	$ 782,088	6.2
Flathead	1,414,040	1,521,670	1,577,827	1,666,062	9.5
Miles	1,035,573	1,068,407	865,002	906,262	(15.2)
Total	$3,128,240	$3,326,277	$3,189,307	$3,354,412	.8
Fund Source					
General Fund	$3,128,240	$3,326,277	$3,189,307	$3,354,412	.8

Fiscal 1987 Formula For Community Colleges

College	Student FTE		Cost Factor		Unrestricted Budget		% State Support		General Fund
Dawson	400	x	$3,611	=	$1,444,400	x	52.0	=	$ 751,088
Flathead	850	x	3,611	=	3,069,350	x	52.0	=	1,596,062
Miles	464	x	3,611	=	1,675,504	x	52.0	=	871,262
Pay Plan					261,538	x	52.0	=	136,000
Total	1,714				$6,450,792				$3,354,412

ISSUES	Fiscal 1987 General Fund	Other Funds
1. Tuition		
Option A. Raise tuition revenue to equate to current fees	$(361,125)	-0-
Option B. Raise tuition to average of western states	$(535,416)	-0-
Option C. Raise tuition to equal 22.5 percent of budget	$(896,660)	-0-

The state's three community colleges, Dawson in Glendive, Flathead Valley in Kalispell, and Miles in Miles City, are organized in accordance with the provisions of Title 20, Chapter 15, MCA. Each community college district has an elected board of trustees accountable to and supervised by the Board of Regents.

Unrestricted budgets for community colleges are generated by a formula approved by the 1981 legislature in which projected student enrollment (FTE) is multiplied by a cost factor. The formula-generated budget was multiplied by 52 percent to

determine the general fund appropriation for the 1987 biennium. Overall, general fund increases .8 percent from fiscal 1985 to 1987, ranging from Flathead increasing 9.5 percent to Miles decreasing 15.2 percent. The remaining 48 percent of the formula budget is financed from student tuition and fees, district mandatory mill levy, interest income, and occasional miscellaneous sources.

FUNDING FORMULA VARIABLES

The total unrestricted budgets of the community colleges are calculated as a result of the legislature determining three variables: (1) Projected student FTE, (2) cost factor per student, and (3) percentage of state support for the unrestricted budgets.

The community college funding study final report, which led to House Bill 69 passed by the 1981 session, indicates that the cost factor per FTE and the percentage of state support were not included in the codes so they could be debated and fixed each session of the legislature. In determining the percentage of state support, the legislature considers not only the state funds available but also the efforts of the community colleges to raise the balance of the unrestricted budgets through student tuition and fees, and the mandatory district mill levy. The mandatory mill levy in the community college districts provides the balance of the unrestricted budget. If other revenues go down, the mill levy increases, and if other revenues go up, the mandatory mill levy decreases.

Projected FTE

The first major variable in the community college funding formula is the student FTE. The full-time equivalent unrestricted enrollment was estimated at 1,714 student FTE for each year of the 1987 biennium. Actual fiscal 1986 enrollment was 1,739, or 25 students more than appropriated, with significant differences between appropriated FTE and actual FTE at individual colleges. These enrollment variances and their impact on fiscal 1986 appropriations are presented in table 1.

Table 1
Impact of Actual FTE on Fiscal 1986 Appropriations

College	FY86 Approp. FTE	FY86 Actual FTE	General Fund Resulting From Actual FTE	Actual FTE General Fund After 2%	Appropriated After 2%	Appropriated Over or (Under) FTE Generated
Dawson	400	388	$ 731,090	$ 716,468	$ 746,478	$ 30,010
Flathead	850	927	1,744,811	1,709,915	1,577,827	(132,088)
Miles	464	424	799,996	783,996	865,002	81,006
Total	1,714	1,739	$3,275,897	$3,210,379	$3,189,307	$ (21,072)

If, after the 2 percent cuts, the fiscal 1986 general fund appropriation reflected actual unrestricted enrollment, Dawson would have been reduced another $30,010, Flathead would have been increased $132,088, and Miles reduced by $81,006.

Table 2 shows the actual FTE for the last three years plus appropriated FTE for fiscal 1987.

Table 2
Student FTE for the Community Colleges

Fiscal College	Fiscal 1984	Fiscal 1985	Fiscal 1986	Fiscal 1987 Appropriated
Dawson	387	453	388	400
Flathead	783	849	927	850
Miles	464	455	424	464
Total	1,634	1,757	1,739	1,714

Cost Factor Per Student

The second major variable in the funding formula is the appropriated cost factor per student FTE. The cost factor approved for fiscal 1987 is $3,611 based upon an inflation rate of 11.5 percent from 1984 through 1987. Analysis indicates that revised inflation factors are negligible and that the $3,611 cost factor is appropriate for fiscal 1987.

Percentage of State Support

The third major variable in the formula is the percentage of state support. The 1983 and 1985 biennium funding was based on 53 percent state support and the 1987 biennium used 52 percent general fund support for the budgets and pay plan, with 41.6 percent for total audit costs of $60,000.

ISSUE 1: TUITION

Table 3 shows tuition and fees for public community colleges in the west and three Montana community colleges.

Table 3
Student Tuition and Fees From Fiscal 1982 to 1986

College	Fiscal 1982	Fiscal 1985	Fiscal 1986	% Change 82-86	% Change 85-86
Dawson	$375	$450	$486	29.6	8.0
Flathead	375	383	450	20.0	17.6
Miles	338	390	501	48.2	28.5
Montana Average	363	408	479	32.0	17.4
West Average	416	529	571	37.3	7.9

Source: WICHE 1985-86 Information Series 10

Although the 17.4 percent increase in Montana's average tuition and fees from fiscal 1985 to 1986 was higher than the average 7.9 percent increase among public community colleges in the west, tuition and fees at the three community colleges remain lower than the average. Fiscal 1986 tuition and fees at the three community colleges average $479, or $92 less per student than the west average.

Table 4 compares the estimated 1986 tuition and fees, based on the community colleges' fall 1985-86 geographic origins report, with the budgeted tuition and fees. This projection shows that the community college tuition and fee revenue is budgeted

at approximately $367,000 less for fiscal 1986 than the tuition rates would indicate. The Commissioner's office provided the fiscal 1986 tuition and fee schedule and the breakdown of students by in-district, out-of-district, and out-of-state for fall, 1985. These percentages for fall enrollment were applied to the actual fiscal 1986 student FTE to determine the estimated tuition and fees.

Table 4
Estimated Tuition and Fees Compared with Budgets
Fiscal 1986

	Estimated Student FTE	Estimated Tuition	Budgeted Tuition	Budget Over (Under)
Dawson				
70.7% In-District @ $450	274	$123,300		
23.4% Out-of-District @ $600	91	54,600		
5.9% Out-of-State @ $900	23	20,700		
Subtotal	388	$198,600	$112,000	$ (86,600)
Flathead				
78.7% In-District @ $450	730	$328,500		
19.2% Out-of-District @ $558	178	99,324		
2.1% Out-of-State @ $954	19	18,126		
Subtotal	927	$445,950	$249,000	$(196,950)
Miles				
66.6% In-District @ $468	282	$131,976		
30.4% Out-of-District @ $618	129	79,722		
3.0% Out-of-State @ $918	13	11,934		
Subtotal	424	$223,632	$139,900	$ (83,732)
TOTAL	1,739	$868,182	$500,900	$(367,282)

Table 5 shows that the budgeted tuition and fees average only 8.2 percent of the fiscal 1986 budgets. This compares with 22.5 percent established by the legislature for the university units during the 1987 biennium.

Table 5
Tuition and Fees as Percent of Budgets
Fiscal 1986

College	Fiscal 1986 Unrestricted Budget	Fiscal 1986 Budgeted Tuition & Fees	Tuition & Fees as Percent of Budget
Dawson	$1,429,600	$112,000	7.8
Flathead	3,037,900	249,000	8.2
Miles	1,658,336	139,900	8.4
TOTAL	$6,125,836	$500,900	8.2

If the estimated tuition and fees shown in table 4 had been used in the fiscal 1986 budget, tuition revenue would have been approximately 14.2 percent of the budget. If the community college tuition and fees had been equal to the west community college average, or approximately 19 percent higher, tuition would have been about 16.9 percent of the budget. The community colleges are under the Board of Regents and their credits are transferrable to the six units of the University system. If community college tuition were all shown in the budget and raised to 22.5 percent of the cost, tuition and fee revenue would average $812 per student FTE in fiscal 1987. This compares with an in-state tuition and fee rate of $1,090 for the university system in 1987.

Option A: Have all the tuition and fees show in the budget. This would offset $361,125 of general fund and make the state support rate 46.4 percent.

Option B: Raise the tuition and fees to the average rate of the western states. This would offset $535,416 of general fund and make the state support rate 43.7 percent.

Option C: Raise the tuition and fees to 22.5 percent of the budget like the university system. This would offset $896,660 of general fund and make the state support rate 38.1 percent.

Option D: Take no action.

MONTANA AGRICULTURAL EXPERIMENT STATION
(Excluding the Range Laboratory)

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	258.16	258.16	255.57	255.57	(2.59)
Personal Service	$6,090,488	$6,331,673	$6,423,266	$6,709,160	6.0
Operating Expense	1,672,870	1,636,356	1,633,850	1,734,029	6.0
Equipment	246,143	323,340	225,000	250,000	(22.7)
Total Operating Costs	$8,009,501	$8,291,369	$8,282,116	$8,693,189	4.8
Non-Operating Costs	27,223	35,405	-0-	-0-	---
Total Expenditures	$8,036,724	$8,326,774	$8,282,116	$8,693,189	4.4
Fund Source					
General Fund	$5,644,003	$5,945,673	$5,954,537	$6,275,232	5.5
State Special	729,509	623,861	520,000	520,000	(16.6)
Federal Revenue	1,663,212	1,757,240	1,807,579	1,897,957	8.0
Total Funds	$8,036,724	$8,326,774	$8,282,116	$8,693,189	4.4

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. Research Priorities		
Option A. Community Improvement Projects	$(201,045)	-0-
Option B. Rural Life Projects	$ (86,051)	-0-
Option C. Consumer Health/Nutrition Projects	$ (31,447)	-0-
Option D. Marketing Systems Projects	$(207,386)	-0-
Option E. Expanded Product Demand Projects	$(335,811)	-0-

The Montana Agricultural Experiment Station was established in 1893 at the state's land-grant university in Bozeman specifically to "conduct and promote studies, scientific investigations, and experiments relating to agriculture, natural resources, and rural life and to diffuse information thereby acquired among the people of Montana," as cited in Section 20-25-222(2), MCA. In addition to the campus research departments, there are seven applied research centers located around the state to serve specific agricultural areas and to be representative in soil, climate, and other variables for research tests.

From fiscal 1985 to 1987 the agricultural experiment station FTE decreases 2.59 as a result of 5.59 dairy research FTE being deleted and 3 FTE being added for weed research. The Forty-ninth Legislature applied 2 percent vacancy savings to faculty and graduate research assistants, and 4 percent vacancy savings to professional, classified, and part-time positions.

The state special revenue is derived from the sale of cattle and agricultural products. It decreases 16.6 percent between fiscal 1985 and 1987. The federal funds are Hatch and multi-state regional research.

ISSUE 1: RESEARCH PRIORITIES

The Montana Agricultural Experiment Station, through its scientists, eight advisory committees, and statewide advisory council, sets research priorities which are submitted by the agency as research proposals to the U.S. Department of Agriculture. Currently approximately 139 state research projects are approved for federal Hatch formula matching funding and 23 regional (multi-state) research projects are approved for federal regional research funds. Although $553,540 of federal regional funds are in the fiscal 1986 unrestricted operating budget, these funds must be used to achieve the objectives of the 23 approved multi-state research projects.

The experiment station's scientist positions and expenditures are summarized by goals in table 1.

Table 1
Agricultural Experiment Station Fiscal 1985 Research Program by Goals
(excluding LARRL)

Goal	Scientists - No.	Scientists - Percent	Expenditures - Cost	Expenditures - Percent
I - Natural Resources	14	16	$1,199,000	14
II - Protection from Pests	22	24	2,211,000	27
III - Reduced Production Costs	41	46	3,938,000	47
IV - Expanded Product Demand	4	4	402,000	5
V - Marketing Systems	4	4	238,000	3
VI - Export Markets	0	0	0	0
VII - Consumer Health/Nutrition	1	1	30,000	1
VIII - Rural Life	2	2	103,000	1
IX - Community Improvement	2	3	206,000	2
Total	90	100	$8,327,000	100

The USDA Cooperative State Research Service, which focuses agricultural research and administers funds appropriated by Congress for the state agricultural experiment stations, established these nine goals and defined the research areas included under each category. This classification system is summarized briefly as follows:

I. Natural Resources - Research on soils classification; plant, water, and nutrient relationships; management of salt problems; conservation and efficient use of water; drainage and irrigation systems; weather; improvement of range resources.

II. Protection from Pests - Control of insects, diseases, and pests on fruits, vegetables, field crops, and range; control of insects and parasites effecting livestock; control of livestock diseases; protection from pollution.

III. Decreasing Real Production Costs - Improving biological efficiency of fruits, vegetables, field crops, and livestock; production management systems for field crops; farm business management; control of environmental stress in livestock.

IV. Expanded Product Demand - Developing new and improved fruits, vegetables, and field crops; production of animal products with improved acceptability; crop and livestock quality maintenance.

V. Marketing Systems - Improving grades and standards for agricultural products; supply, demand, and price analysis; marketing systems analysis.

VI. Export Markets - Developing foreign markets; evaluating foreign food-aid programs.

VII. Consumer Health and Improved Nutrition - Protecting food and feed supplies from harmful microorganisms and toxins; studying food choices, consumption, and human nutrition.

VIII. Rural Life - Research on housing; family resource use; improving economic potential; individual and family adjustments to change; government programs.

IX. Community Improvement - Research on soil, water, and air pollution and waste disposal; wildlife; trees to enhance environments; ornamentals and turf; improvement of rural institutions and services.

The agency is focusing 88 percent of its available resources on the first three goals. These research priorities reflect the livestock, crops, and resource management issues in agriculture which make up a significant segment of the economy of Montana. As table 1 shows, the last three goals are of lower priority for allocation of research funds and together constitute 4 percent of total expenditures.

The legislature may want to consider whether the projects from these various goals, as cited in tables 2 through 6, constitute a high enough priority for continued funding. Projects funded with federal regional grants are excluded from the totals in each table as they do not require any state match, and they are federally funded in fiscal 1986 and 1987. All other projects are listed for consideration because the agency director has the option of moving the funding among projects to achieve research objectives.

Table 2 lists for consideration a total of $192,572 in Community Improvement Goal IX fiscal 1985 research projects. In the event the legislature were to eliminate these projects, the savings in Option A would be $201,045 after adjusting for inflation to fiscal 1987. The totals in all options are adjusted 4.4 percent for inflation to fiscal 1987.

Table 2
Projects in Goal IX: Community Improvement

Project Title	Fiscal 1985 Expenditures
1. Alleviation of Soil, Water & Air Pollution	
a. Environmental Distribution, Transformation & Toxicological Implication of Pesticide Residues	$ 38,206
b. Exploratory Research in Chemistry	4,252
2. Fish & Other Aquatic Life, Fur-Bearing Animals & Other Wildlife	
a. Environmental Factors Influencing Distribution & Density of Economically Important Bird Populations	36,522
3. Trees to Enhance Rural Environment	
a. Plant Survival in Above-Grade Planters	14,137
4. Culture & Protection of Ornamentals & Turf	
a. Biochemical & Physiological Bases of Plant Disease Resistance and Susceptibility	30,034
b. Plant Survival in Above-Grade Planters	14,137
c. Selection & Propagation of Native & Introduced Woody Plants Suitable to Variable Environments	18,680
d. Breeding Turf Grass With Resistance to Drought & Salinity Stress	18,426
e. Low Temperature Tolerance of Perennials & Miscellaneous Crops	14,302
5. Improvement of Rural Community Services	
a. Montana's Agricultural Manpower Assessment Project	17,664
Subtotal	$206,360
Less Federal Regional Research Funds	13,788
TOTAL	$192,572

Table 3 lists for consideration projects in Goal VIII, Rural Life. These eight fiscal 1985 projects, less the federal regional funds, total $82,424. The elimination of these projects totaling $86,051 after adjusting for inflation to fiscal 1987, plus all of the Community Improvement projects on table 2 amounting to $201,045, would provide a total reduction of $287,096 or a 4.6 percent general fund reduction.

Table 3
Projects in Goal VIII: Rural Life

	Fiscal 1985 Expenditures
1. Individual & Family Decision Making & Resource Use & Family Functioning	
a. Coping With Stress: Adaptation of Nonmetropolitan Families to Socioeconomic Changes	$ 20,863
2. Communication and Education Processes	
a. Montana's Agriculture Manpower Assessment Project	5,299
b. Rural College Students Perceptions of Occupation	6,104
3. Individual and Family Adjustment to Change	
a. Montana's Agriculture Manpower Assessment Project	12,365
b. Population Changes in Small Towns	17,212
c. Rural College Students Perceptions of Occupation	6,104
d. Impacts of Human Migration Flows on Nonmetropolitan People and Places	21,071
4. Government Programs to Balance Farm Output & Market Demand	
a. Nutrition & Agricultural Policy Analysis	13,607
Subtotal	$102,625
Less Federal Regional Research Funds	20,201
TOTAL	$ 82,424

Table 4 lists for consideration three projects in Goal VII, Consumer Health and Nutrition, totaling $30,122, or $31,447 adjusted for inflation to fiscal 1987. There are no federal research funds in these projects. The legislature may decide these projects could be eliminated. If these Consumer Health and Nutrition projects in table 4 are added to the table 2 and 3 projects, the total reduction would be $318,543 or a 5.1 percent general fund reduction.

Table 4
Projects in Goal VII: Consumer Health and Nutrition

Project Title	Fiscal 1985 Expenditures
1. Protect Food & Feed Supplies From Harmful Microorganisms & Naturally Occurring Toxins	
a. Enteropathogens in Swine	$ 8,461
2. Food Choices, Habits and Consumption	
a. Nutritional Improvement & Acceptance of Grains for Feed & Food Uses	8,054
3. Human Nutrition	
a. Nutrition & Agricultural Policy Analysis	13,607
TOTAL	$30,122

Table 5 lists for consideration six projects in Goal V, Marketing Systems. After the federal regional funds are taken out, these projects total $198,646. If all the marketing systems projects which total $207,386 when adjusted for inflation were added to the projects in the foregoing tables, the reduction would be $525,929 or an 8.4 percent general fund reduction.

Table 5
Projects in Goal V: Marketing Systems

Project Title	Fiscal 1985 Expenditures
1. Improvement of Grades & Standards - Crop & Animal Products	
a. Evaluation of Montana Feeds for Dairy Cattle	$ 3,106
2. Supply, Demand and Price Analysis - Crop & Animal Products	
a. Agricultural Supply Response	61,835
b. Marketing Alternatives in a Changing Economic Environment	43,218
c. Agricultural Resource & Production Economics	48,528
3. Performance of Marketing Systems	
a. Marketing Alternatives in a Changing Economic Environment	33,614
b. Performance of the U.S. Grain Marketing System in a Changing Economic & Policy Environment	48,065
Subtotal	$238,366
Less Federal Regional Research Funds	39,720
TOTAL	$198,646

Table 6 lists for consideration 15 projects in Goal IV, Expanded Product Demand. These fiscal 1985 projects total $321,658 without federal regional funds. If all of these projects totaling $335,811 after adding inflation to fiscal 1987 were added to the projects in prior tables, the total general fund reduction would be $861,740, or 13.7 percent.

Table 6
Projects in Goal IV: Expanded Product Demand

Project Title	Fiscal 1985 Expenditures
1. New & Improved Fruit & Vegetable Products & By-Products	
a. Exploratory Research in Chemistry	$ 4,252
b. Nutritional Improvement & Acceptance of Grains for Feed & Food Uses	12,082
c. Physiology & Culture of Horticultural Crops	11,935
2. Production of Field Crops With Improved Acceptability	
a. Compositional Qualities of the Albumins, Globulins, Hordeins & Glutelins of Barley Protein	72,611
b. Characteristics and Feed Value of Barley & Western Protein Supplements for Swine	26,817
c. Genotype-Environment Interactions Related to End-Product Uses in Small Grains	110,332
d. Development of Spring Wheat Varieties & the Testing of These & Introduced Varieties	1,007
e. Winter Wheat Variety Development & Testing in Montana	28,681
f. Barley Breeding & Genetics in Montana	10,413
g. /Breeding & Improvement of Oilseed Crops for Eastern Montana	34,934
3. New & Improved Food Products From Field Crops	
a. Exploratory Research in Chemistry	4,252
b. Nutritional Improvement & Acceptance of Grains for Feed & Food Uses	60,407
c. Use of Barley & Barley By-Products in Human Food	22,270
4. New & Improved Feed, Textile & Industrial Products from Field Crops	
a. Improvement of Agricultural Efficiency Through Biotechnology	176
5. Production of Animal Products With Improved Acceptability	
a. Evaluation of Montana Feeds for Dairy Cattle	1,864
Subtotal	$402,033
Less Federal Regional Research Funds	80,375
TOTAL	$321,658

Option A: Eliminate the ten projects under the community improvement goal for a general fund savings of $201,045.

Option B: Eliminate the eight projects under the rural life goal for a general fund savings of $86,051.

Option C: Eliminate the three projects under the consumer health and nutrition goal for a general fund savings of $31,447.

Option D: Eliminate the six projects in the marketing systems goal for a general fund savings of $207,386

Option E: Eliminate the 15 projects in the expanded project demand goal for a general fund savings of $335,811.

Option F: Take all the above options for a general fund savings of $861,740.

Option G: Take no action.

BUREAU OF MINES AND GEOLOGY
Current Unrestricted

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	30.93	31.91	32.41	32.41	.5
Personal Service	$ 861,900	$ 903,277	$ 916,572	$ 949,572	5.1
Operating Expense	562,975	533,681	584,637	616,628	15.5
Equipment	24,148	38,405	25,833	20,830	(45.8)
Total Operating Costs	$1,449,023	$1,475,363	$1,527,042	$1,587,030	7.6
Fund Source					
General Fund	$1,396,693	$1,433,742	$1,174,042	$1,534,030	7.0
State Special	52,330	41,621	53,000	53,000	27.3
State and Special RIT	-0-	-0-	300,000	-0-	---
Total Funds	$1,449,023	$1,475,363	$1,527,042	$1,587,030	7.6

The Bureau of Mines and Geology, a public service agency and research entity of the Montana College of Mineral Science and Technology in Butte, is responsible for assisting in development of the state's mineral resources. The agency gathers, field tests, analyzes, catalogues, and disseminates information on ground water, metals, oil, gas, coal, and other non-metallic minerals. It carries out research in mineral benefits and mineral industry economic problems in the state. The agency has water research agreements with the Department of Natural Resources and Conservation, Department of State Lands, Montana Water Resources Research Center, and other state agencies.

From fiscal 1985 to 1987 there is a .5 FTE increase for a geophysicist for the seismic monitoring lab. This plus the pay plan account for a 5.1 percent increase in personal services. Four percent vacancy savings was applied to classified and part-time positions for fiscal 1986 and 1987. No vacancy savings was applied to professional positions. Operating expenses increase 15.5 percent for the same period

due to inflation and due to operating expenses in fiscal 1985 being $40,000 lower than anticipated in the appropriation.

In fiscal 1986 the legislature appropriated $300,000 of resource indemnity trust fund interest. The other state special revenue is derived primarily from sales of maps and publications. This sales revenue increases 27.3 percent from fiscal 1985 to 1987 as the $56,179 of expected revenue was not realized in fiscal 1985.

MONTANA COOPERATIVE EXTENSION SERVICE

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	132.86	134.08	135.30	135.30	1.22
Personal Service	$3,286,434	$3,441,999	$3,593,076	$3,765,115	9.4
Operating Expense	581,797	667,100	663,133	689,170	3.3
Equipment	24,181	41,102	$ 20,222	14,881	(63.8)
Total Operating Costs	$3,892,412	$4,150,201	$4,276,431	$4,469,166	7.7
Non-Operating Costs	2,838	9,697	4,000	-0-	---
Total Expenditures	$3,895,250	$4,159,898	$4,280,431	$4,469,166	7.4
Fund Source					
General Fund	$2,132,052	$2,186,554	$2,242,837	$2,371,660	8.5
Federal Revenue	1,763,198	1,973,344	1,976,222	2,033,522	3.0
Proprietary Funds	-0-	-0-	61,372	63,984	---
Total Funds	$3,895,250	$4,159,898	$4,280,431	$4,469,166	7.4

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. Administration Consolidation	$(568,923)	-0-
2. Extension Specialists	$(318,896)	-0-
3. Classified Personnel		
Option A.	$(54,939)	-0-
Option B.	$(99,108)	-0-
Option C.	$(100,934)	-0-
Option D.	$(133,787)	-0-
4. Equipment	$(3,932)	-0-

The Montana Cooperative Extension Service (MCES) is the state agency responsible for diffusing useful and practical information on subjects relating to agriculture and home economics, including management of the 4-H program. The extension service is located at Bozeman and is part of the national land-grant university system.

Authorized FTE increase 1.22 in fiscal 1986 and fiscal 1987 for a pesticide specialist. This new position plus the pay plan are the primary reasons why personal

services increase 9.4 percent from fiscal 1985 to fiscal 1987. Vacancy savings of 4 percent were applied to administrative, classified, and part-time positions. There are no vacancy savings for extension specialists and county agents. Operating expenses increase 3.3 percent and total expenditures increase 7.4 percent from fiscal 1985 to fiscal 1987.

The general fund increases 8.5 percent from fiscal 1985 to 1987. For fiscal 1986, federal Smith-Lever funds were appropriated at $1,976,222 and the actual authorization is $1,837,038, or $139,184 less than appropriated. Proprietary funds increase 100 percent for the 1987 biennium because the legislature authorized AGNET, a computerized informational system, to be funded entirely by fees and other non-general fund sources, rather than 50 percent by general fund as was done in fiscal 1985. The agency put the 50 percent paid by fees in fiscal 1985 in the designated fund so it does not show on the current unrestricted main table.

ISSUE 1: ADMINISTRATION CONSOLIDATION

There are six reasons for consolidating the cooperative extension administration with the agricultural experiment station administration: (1) State legislation, (2) other states, (3) on-site review reports, (4) work priorities, (5) survey of producers, and (6) cost savings. These reasons for consolidation are explained below.

State Legislation

There are no state statutes establishing the Montana Cooperative Extension Service or defining its purpose and structure. Section 20-25-226(2)(a), MCA, accepts the terms and provisions of the Smith-Lever Act of 1914, which created the federal extension service. There are ten sections in MCA Chapter 25 defining the purpose and structure of the agricultural experiment station, most specifically 20-25-222: "The purpose of the agricultural experiment station shall be to conduct and promote studies, scientific investigations, and experiments relating to agriculture, natural resources, and rural life and to diffuse information thereby acquired among the people

of Montana" (emphasis added). Therefore, by state law the agricultural experiment station is charged with responsibility for extension work among farmers, ranchers, and others.

Other States

Other states with combined agricultural experiment station-cooperative extension service administration appear to have effective and efficient programs. Oklahoma, Oregon, Pennsylvania, and Wyoming are examples of states that have combined administration, with one College of Agriculture dean who is also the agricultural experiment station and cooperative extension service director. These four states plus Washington, Michigan, Minnesota, Utah, South Dakota, Nebraska, and Idaho are some of the states that have selected split agricultural experiment station-cooperative extension service faculty appointments. The Minnesota director writes that the agency has a considerable number of faculty with joint appointments and is increasingly moving in that direction because "often the most effective extension educator is one extending the results of research he/she has personally conducted." Responsibilities of the Wyoming College of Agriculture Dean and Agricultural Experiment Station-Extension Service director are one-third instruction, one-third research, and one-third extension. Faculty have split appointments, some teaching-research, some extension-research, and some teaching-extension. Although a few faculty are extension specialists, the dean and director states, "We don't hire extension specialists anymore because, to have a healthy and viable extension service, there must be some research or teaching responsibilities involved." He concludes that structure is very important and that the consolidated Wyoming organization is "really working very well."

On-Site Review Reports

Two recent on-site agricultural experiment station reviews, conducted by out-of-state experts and chaired by USDA representatives, indicate that Montana's

distinction between research and extension hinders programs. A March 19-23, 1984 report, prepared by the USDA Cooperative State Research Service principal agronomist after a panel on-site review of the Plant and Soil Science Department, which includes 10 extension service employees, suggested consideration be given to making all extension specialists regular members of the department, accountable to the department head and, concomitantly, making the department fully accountable for a relevant, effective, and efficient extension program. The report further recommended joint faculty appointments in extension and research for selected positions so as to more effectively attract and retain top-flight faculty, enhance the generation and dissemination of new research-based knowledge, and minimize misinterpretations of the extension and research functions.

Another USDA on-site review, conducted March 25-29, 1985 for the Department of Animal and Range Sciences, recommended that extension personnel become more involved in research planning, that programs might better meet the state's needs if extension personnel held joint teaching and/or research appointments, and if the Montana Agricultural Experiment Station-College of Agriculture department heads were more involved in development of extension programs.

Work Priorities

The extension service 1985 annual federal report states that 32.3 staff years or 24.7 percent of the agency's total staff time was spent on 4-H. Other staff time was allocated 4 percent to community development, 19.8 percent to home economics and 51.5 percent to agriculture and natural resources.

The 4-H program served approximately 10,000 youth, according to agency reports. If this required 24.7 percent of extension staff time, then a conservative cost figure, not including supplies and support provided by the counties, is $1.3 million, or $130 per youth. Yet 3,500 volunteers provided the direct 4-H youth leadership and any dues to the clubs, transportation, and project costs which were

paid by parents are not included in this cost. By comparison, the state is allowing $100 in fiscal 1986 to meet the annual clothing needs of a child in foster care.

During the same time period, there were approximately 10,000 Girl Scouts in Montana served at a total cost of $600,000 from the private sector, including dues paid by parents. By comparison, the Girl Scout cost is $60 per youth. During the same time period, there were 12,957 Boy Scouts in the state served, according to the agency director, at a cost of $502,575 or $40 per youth.

The extension service's 1986 work priorities increased 4-H to 28 percent of total staff time and reduced agricultural and natural resources services to farmers and ranchers from 51.5 percent to 45 percent, at a time when the state is experiencing a recognized agricultural crisis. It may be asked whether these are the work priorities for which the state is appropriating $4.5 million dollars.

Survey of Producers

A survey of 700 Montana opinion-leader producers, reported in the fall 1985 issue of "AgResearch," showed that over 88 percent of the respondents rate the staff and the image of the agricultural experiment station as good to excellent and frequently use their material. The research also shows that 71 percent of the producers have received information from the extension service. Producers are "particularly interested in those activities and materials that have a direct impact on their income producing capacity and are interested in receiving current information in a clear, concise manner." One conclusion of the study is that many producers have a difficult time distinguishing between extension service and agricultural experiment station functions.

Cost Savings

The fiscal 1987 cost savings of consolidating administration could be $568,923. Table 1 shows the current administrative staff of both the cooperative extension service and the agricultural experiment station.

Table 1
Comparison of Current Level Cooperative Extension Service and Agricultural Experiment Station Administration Staff

- - - - Extension Service Administration - - - -			- Agricultural Experiment Station Admin.-			FY 1987
Title	FTE	Average FY 1987 Costs	Title	FTE	Average FY 1987 Costs	Total Cost
Director	.90	$ 53,043	Director	.65	$ 20,175	$ 73,218
Associate Director	1.00	53,043	Associate Director	1.00	31,038	84,081
Admin./Fiscal Officer	1.00	53,043	Fiscal Officer	1.00	31,038	84,081
Ag & Nat. Res. Program Coord.	1.00	52,562	Program Officer	1.00	31,038	83,600
Human Res. Program Coord.	1.00	52,562	---			52,562
4-H Program Coordinator	1.00	52,562	---			52,562
Area Supervisor	1.00	47,049	---			47,049
Area Supervisor	1.00	47,049	---			47,049
Area Supervisor	1.00	47,049	---			47,049
Area Supervisor	1.00	47,049	---			47,049
Editor (shared with AES)	.50	16,583	Editor (shared with CES)	.50	15,519	32,102
Commun. Spec. (shared with AES)	.50	16,583	Asst. Edtr.(shared with CES)	.50	15,519	32,102
Information Specialist	1.00	33,166	News Specialist	.50	15,519	48,685
Professional Subtotal	11.9	$571,343	Professional Subtotal	5.15	$159,846	$ 731,189
Average Professional FTE Cost		$ 48,012	Average Professional FTE Cost		$ 31,038	
Secretary III	2.00	$ 36,154	---			$ 36,154
Programmer/Analyst	1.00	18,077	Word Processing Operator	.75	$ 14,720	32,797
Administrative Secreatry I	1.00	18,077	Administrative Secretary	.75	14,719	32,796
Secretary II	3.50	63,270	Receptionist	1.00	19,626	82,896
Secretary I	.50	9,038	Secretary I	.25	4,906	13,944
Personnel Technician II	1.00	18,077	---			18,077
Accounting Technician I	1.00	18,077	Accounting Technician II	1.00	19,626	37,703
Mail Clerk Supervisor	1.00	18,077	---			18,077
Clerk Typist III	.50	9,039	---			9,039
Stock Clerk I (shared with AES)	.50	9,038	Mail Clerk (shared with CES)	.50	9,812	18,850
Classified Subtotal	12.00	$216,924	Classified Subtotal	4.25	$ 83,409	$ 300,333
Average Classified FTE Cost		$ 18,077	Average Classified FTE Cost		$ 19,626	
Total FTE and Cost	23.90	$788,267	Total FTE and Cost	9.40	$243,255	$1,031,522

Table 1 shows there are 11.9 professional administrative FTE at the extension service and 5.15 professional administrative FTE at the agricultural experiment

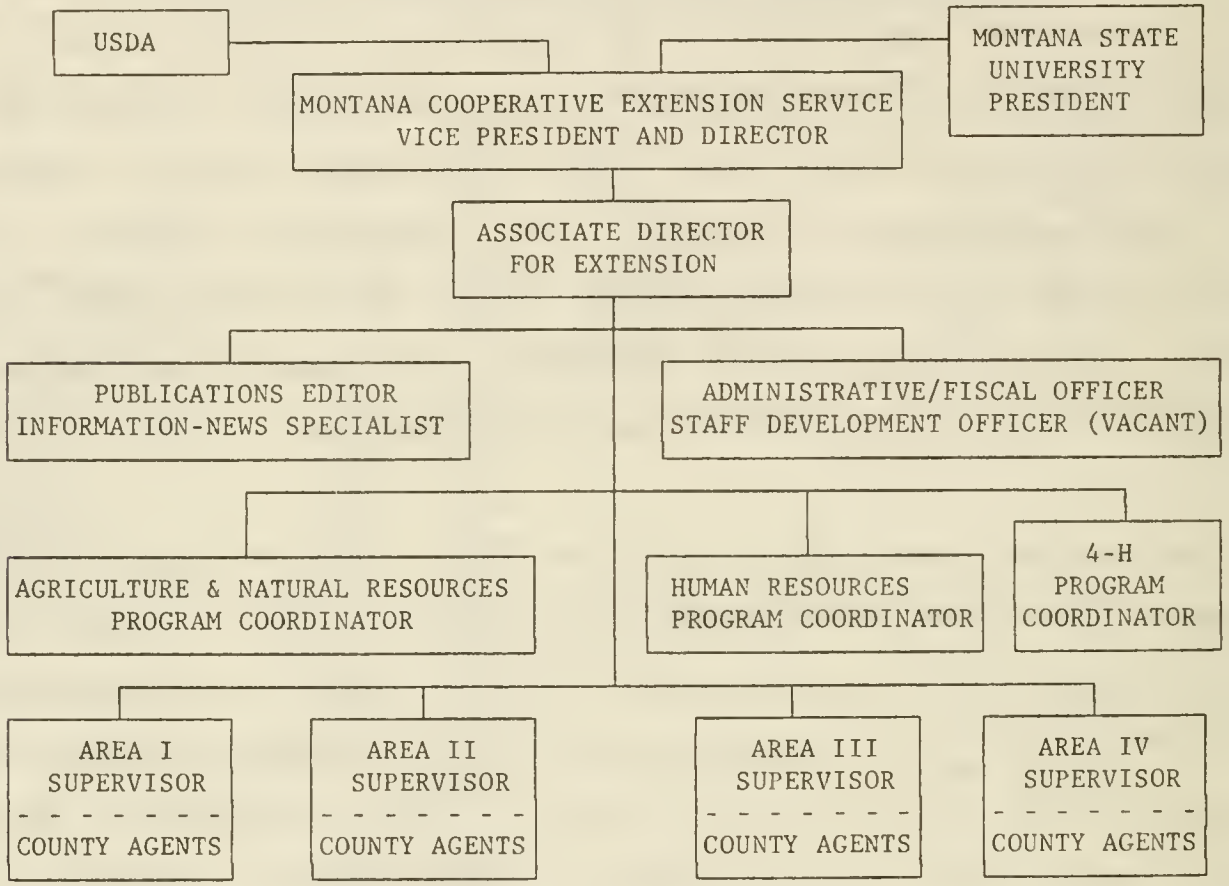
station, for a total of 17.05 professionals. The average professional FTE cost in fiscal 1987 at the cooperative extension service is $48,012 or $16,974 more per person than the $31,038 average cost at the agricultural experiment station. These cooperative extension service professionals include the director, associate director, administrative services officer, three program coordinators, four area supervisors, and editor-communications specialists. The agricultural experiment station professionals include the director, associate director, fiscal systems officer, program officer, and editor-communications specialists. The agencies are sharing two professional FTE in the publications and news section, and sharing one classified FTE.

The extension service utilizes 23.9 of its FTE at a fiscal 1987 cost of $788,267 to administer a $4,479,166 agency budget, plus about $1.8 million in restricted funds. Personnel costs for administration are 20.9 percent of the $3,765,115 personal service fiscal 1987 budget at the extension service. The agricultural experiment station utilizes 9.4 of its FTE at a fiscal 1987 cost of $243,255 to administer an $8,693,189 agency budget, plus about $2.9 million in restricted funds. Personnel costs for administration are 3.6 percent of the $6,709,160 personal service fiscal 1987 budget at the agricultural experiment station. Total personal services cost in fiscal 1987 for administration of the two agencies will be $1,031,522.

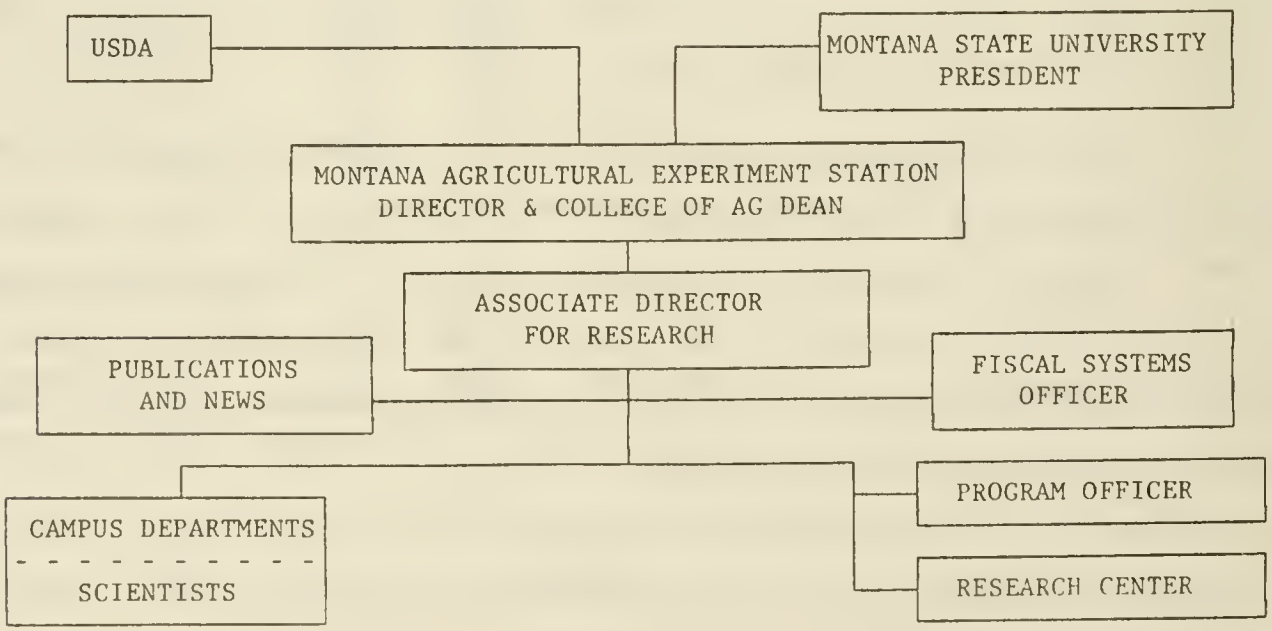
Current level organization charts for the two agencies, presented on table 2 show similarities in administrative functions and relationships: (1) both agencies are located at MSU and report to the university president; (2) both agencies report to and receive federal funds from the the USDA, albeit different federal divisions, but nonetheless similar operationally; (3) both agencies have associate directors, fiscal officers, and publications-news specialists.

TABLE 2
ORGANIZATIONAL CHARTS

EXTENSION SERVICE CURRENT ORGANIZATIONAL STRUCTURE



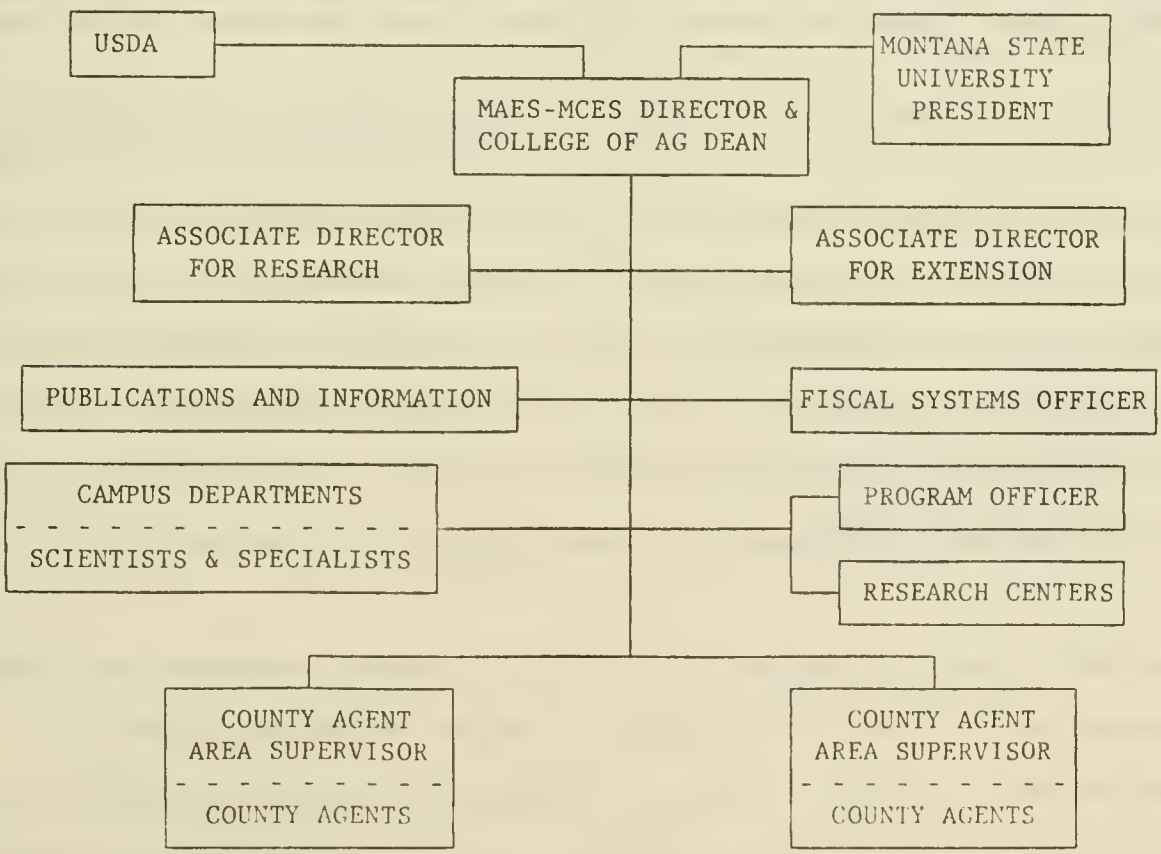
------ AGRICULTURAL EXPERIMENT STATION CURRENT ORGANIZATIONAL STRUCTURE -------



It is also noteworthy that both agencies have computerized financial accounting and reporting systems and that many of the extension specialists and research scientists work side-by-side in the same agricultural experiment station-College of Agriculture departments. The primary point, however, is that there are unnecessary duplications in these two structures. Not only are the duplications costly, but experiences of other states, on-site review reports, and the survey of producers indicate that maintaining two separate structures hinders program effectiveness and confuses farmers and ranchers about where to obtain assistance.

A potential consolidated structure which streamlines administration and eliminates duplicate positions is presented in table 3.

Table 3
Possible Consolidated Structure



The consolidated administration, presented in table 3, includes the following:

1. Appoint the Montana Agricultural Experiment Station director and College of Agriculture dean the joint Montana Cooperative Extension director, and eliminate the current extension director position.

2. Transfer one professional extension service FTE to become the new associate director for extension at a salary commensurate with current level agricultural experiment station salaries.

3. Make the agricultural experiment station fiscal officer the consolidated agency fiscal officer, deleting the current extension administrative/fiscal position and the vacant staff development position, and adding 1 FTE fiscal specialist at the agricultural experiment station's average fiscal 1987 cost of $31,038 to assist with the combined workload.

4. Continue the two publications and information shared FTE and add 1 FTE at approximately $31,038 to this administrative function so that the publications and information office will be able to distribute regularly the most up-to-date materials to farmers, ranchers, and county extension agents.

5. Make extension specialists regular members of the discipline campus departments accountable to the department heads, thereby eliminating three extension program coordinator positions and enabling the dean and director to begin making split extension-research-teaching appointments as appropriate.

6. Transfer to the consolidated structure two county agent area supervisors at salaries commensurate with current level agricultural experiment station salaries and eliminate two area supervisor positions.

7. Transfer 4.25 classified FTE from the extension service to the consolidated structure at an average cost of $19,626 each and delete 7.75 classified positions.

Streamlining administration and eliminating duplications would result in a consolidated structure with 11.48 professional FTE and 8.5 classified FTE at current level agricultural experiment station salaries. This is a reduction of 5.57 professional FTE and 7.75 classified FTE for total personal services fiscal 1987 savings of $490,144. The new administrative personal services fiscal 1987 cost of the consolidated Montana Agricultural Experiment Station-Montana Cooperative Extension Service would be $541,378.

In addition, analysis indicates that $78,779 of related administrative operating expense would also be saved. The total fiscal savings, therefore, is $568,923.

A long-range increased cost from consolidation might result if some extension specialists were to have split appointments with research accounting for 50 percent or

more of their time. Although extension specialists are considered state employees and university faculty, it is a condition of federal Smith-Lever funding that they be under U.S. civil service retirement if 51 percent or more of their job responsibilities are extension service. Therefore, the overall benefits for extension faculty are calculated at an average of 16 percent in comparison to the overall benefits for agricultural experiment station faculty which average 20.12 percent. Under the consolidated structure, if all extension faculty being transferred were split 50 percent research and 50 percent extension in fiscal 1987, the additional cost would be approximately $46,000. If one extension faculty were to have a 50 percent research appointment, the additional cost would be approximately $1,200. If one extension faculty were to have a 49 percent research appointment and a 51 percent extension appointment, there would be no additional benefits cost.

In conclusion, there are six reasons to consider consolidating the cooperative extension administration with the agricultural experiment station administration: (1) state legislation which makes the agricultural experiment station responsible for diffusing information; (2) effective and efficient combined administration and programs in other states; (3) USDA departmental review reports indicating that the present distance between research and extension is hindering programs; (4) work priorities of the extension service allocating 28 percent of total fiscal 1986 staff time to 4-H and 45 percent to agriculture and natural resources; (5) confusion among agricultural producers about whether to go to the cooperative extension service or to the agricultural experiment station for information and assistance; and (6) cost savings of $568,923.

Option A: Consolidate Montana Cooperative Extension Service and Montana Agricultural Experiment Station administration under the College of Agriculture dean for a $568,923 general fund savings in fiscal 1987.

Option B: Take no action.

ISSUE 2: EXTENSION SPECIALISTS

There are 36.81 FTE extension specialists in 27 different extension service program areas. Each specialist is responsible for evaluating research data from the agricultural experiment station and other sources, and for providing practical applications to farmers, ranchers, and others in Montana. Some extension specialty programs duplicate training available from adult education, community colleges, other government agencies, businesses, private organizations, and the agency itself. Other extension programs are not directly related to the agency's federally-defined purpose of serving agriculture and home economics. These points of unnecessary duplication or of agency appropriateness may be raised regarding 9.31 extension specialists who are in the areas of community development, economics, energy, foods and nutrition, 4-H, health, interior design, and safety. Table 4 shows the total 36.81 FTE extension specialists and the FTE which will be analyzed for the potential of duplication or low priority in the state.

Table 4
Total Specialist FTE Citing Those Which May be Duplicative or Low Priority

Program Specialists	FTE*	Questioned FTE	Remaining FTE
Community Development	1.22	1.22	--
Economics	4.88	2.44	2.44
Energy	1.22	1.22	--
Foods & Nutrition	1.22	1.22	--
4-H	2.44	1.22	1.22
Health	0.61	0.61	--
Interior Design	1.22	1.22	--
Safety	0.16	0.16	--
Agronomist	1.68	--	1.68
Tillage	1.22	--	1.22
Beef	1.22	--	1.22
Dairy	1.22	--	1.22
Swine	1.22	--	1.22
Farm Management	2.44	--	2.44
Pesticide Education	1.22	--	1.22
Entomologist	1.22	--	1.22
Sheep	1.22	--	1.22
Range	1.22	--	1.22
Horticulturist	1.22	--	1.22
Weeds	1.22	--	1.22
Plant Pathologist	1.22	--	1.22
Soils Scientist	1.22	--	1.22
Ag. Engineering & Technology	2.64	--	2.64
Human Development	1.22	--	1.22
Clothing & Textiles	1.22	--	1.22
Total	36.81	9.31	27.50

*Each 1.22 academic year FTE is equal to 1 person presented on this table.

Community Development

Community development may be duplicative and low priority because the agency's 1984-1987 four-year plan of work includes the following six tasks: (1) help three counties participate in a four-day conference on "Communities in Transition - Coping with Hard Times"; (2) information on means of funding, volunteer recruitment, and training to assist six county agents working on two camps, a softball complex, and water systems; (3) education of government officials on liability, parliamentary procedure, and decision making; (4) back-up to Cut Bank-Glacier County Planning Board

and county agents who are establishing a road name and addressing system, Rosebud County subdivision issues, and Hardin tree-maintenance program; (5) train county agents to work with advisory councils and prepare a handbook; and (6) develop training modules for county leaders on leadership styles, public relations, communication, etc.

The following points of duplication and low priority are raised for consideration:

1. Three county agents and nine local representatives participated in the Western Rural Development Center conference on "Hard Times."

2. Work on camps, softball, and water systems may duplicate services from the Department of Commerce Finance Technical Assistance Bureau, Bureau of Mines Hydrology Division, Department of Natural Resources and Conservation, Voluntary Action Centers, and United Ways. The Bureau of Mines Hydrology Division officials report working directly with the county agents on water systems, rather than through the community development specialist.

3. The two-day training program on "How State Government Functions" had 14 people in attendance.

4. It may be reasonable to expect the Glacier County Planning Board and the 1.6 FTE county agents serving the county to themselves establish a road name system and to seek help from other planning boards if necessary. There are resources in other counties to help with subdivision issues and tree maintenance.

5. It is indeed important for county agents to receive training on working with advisory councils, but it may be expected such training could be conducted by the 11.9 professional administrative FTE so the functioning of local councils would be compatible and integrated with the statewide advisory council.

6. Training and consultation for public employees and governmental entities on public relations, leadership styles, etc., is the responsibility of the Department of Administration Professional Development Center. This information also is available through the Montana Association of Counties, League of Cities and Towns, county attorneys, libraries, adult continuing education, colleges, and universities. An average of 11.4 people participated in each of 51 county workshops on leadership styles.

It may be asked to what extent these six programs are a priority for farmers and ranchers.

Economics

The extension service has four full-time economics specialists, the College of Agriculture has an Economics Department with a fiscal 1986 personal services budget of

$555,205, and MSU has a College of Business which deals with agriculture as a business. It is the MSU Economics Department that is working with the Montana Bankers Association Agricultural Credit Conference Committee and the Farmers Home Administration to provide education information to financially-distressed agricultural borrowers.

Questions of possible duplication and low priority may be raised about two full-time specialists whose four-year plan of work includes three programs: (1) increasing public understanding of hydrology, market alternatives, and policy; (2) raising the level of market awareness, training county agents to train farmers in marketing skills, professional attitudes, and producer confidence; and (3) providing grain producers and supporting agencies with materials designed to isolate market function and implement strategies.

The Bureau of Mines has water research and service divisions, which work directly with county agents, as well as individuals, companies, and agencies, upon request. The Department of Natural Resources and Conservation has water engineering, development, management, and water rights bureaus to provide consultation to county agents, farmers, and ranchers. It may be asked whether the extension service should also have a full-time economics specialist working on water. This may be non-essential duplication.

The Department of Agriculture has a Wheat Research and Marketing unit that promotes Montana wheat and barley. The Build Montana Program also promotes state agricultural products. Media provide daily marketing information to farmers and ranchers based on U.S. Department of Agriculture information from its Billings office. In addition, the new Department of Agriculture Emergency Counseling Program provides marketing assistance to individual farmers and ranchers. It may be that an agricultural experiment station marketing scientist could pick up any essential extension marketing responsibilities through a split appointment. In that event, this full-time extension specialist would be duplication.

If the legislature were to decide these 2 FTE are duplications or low priority, the extension service still would retain two full-time economists: The farm management economist and the family economist specializing in agricultural land transfers and estate planning.

Energy

The 1984-1987 plan of work for the energy specialist includes four projects: (1) provide information on energy efficient design and construction techniques for new home construction and retrofit; (2) teach directly and train county agents in passive solar applications for existing residential structures; (3) train 50 youth in energy concepts in cooperation with the Department of Natural Resources and Conservation; and (4) establish 30 literature racks across the state to distribute Department of Natural Resources and Conservation publications. The 1986 work plan adds the task of providing 56 county governments, 450 local governments, and 3,000 small businesses with energy publications and consultations.

The Department of Natural Resources and Conservation has an Energy Division with 41 FTE currently, and has 80 energy publications available. This division has a Conservation and Renewable Energy Bureau with a commercial and institutional section, information section, extension service, and residential demonstration program, with programs that include conducting workshops around the state and providing technical assistance to local governments and consumers. It has a Facility Siting Bureau and a Planning and Analysis Bureau. In fiscal 1986, the Department of Natural Resources and Conservation is paying the extension service $14,406 to maintain the 62 literature racks across the state, $13,042 to train 4-H youth in energy awareness, and $16,913 to develop five energy video tapes, for a total of $44,361 in restricted grants.

In addition, the private sector provides energy consumer information and education. In Helena, for example, there are three solar systems dealers, one of whom regularly conducts workshops, and there are nine building materials dealers,

one of whom regularly advertises free informational training programs in the newspaper.

The following points regarding whether there is on-going need for a full-time extension faculty energy specialist may be considered:

1. An extension secretary, who could be paid up to 78 percent time by the literature-rack grant, might maintain the energy center racks directly and through the county extension agents.

2. The same secretary could advise county agents when and where the Department of Natural Resources and Conservation energy workshops will be held so agents could receive training at existing programs.

3. County agents could be given a list of professionals at the Department of Natural Resources and Conservation and refer technical questions directly to them rather than to the extension specialist.

4. The Department of Natural Resources and Conservation is paying, through the cooperative extension service's restricted funds, for the extension service to distribute energy awareness information among 4-H groups.

5. Consumers or local governments who want energy information may obtain it from county agents, the literature racks, the private sector, libraries, or the Department of Natural Resources and Conservation directly.

Foods and Nutrition

The 1984-1987 plan of work for the food and nutrition specialist includes five projects: (1) enroll 50 women in a weight loss class to help them develop long-term weight control; (2) provide 2,500 child nutrition packets to county agents for distribution through the schools; (3) recruit home economists in a Master Food Preserver Program so they can train volunteers to provide information on home food preservation; (4) under a three-county federal program, supervise paraprofessionals to teach low-income families one-to-one about nutrition and food skills; and (5) under the same federal program, paraprofessionals and volunteers will teach youth in classrooms and after school about meal planning, food preparation, etc.

The following points of possible duplication or low priority are raised for consideration:

1. The weight-loss classes had 92 women enrolled. Twenty-five stayed in for one year and 22 percent lost weight before the program was shifted to the

counties in fiscal 1986. Weight-loss information and classes are available through magazines, books, non-profit agencies, and the private sector.

2. Most child and adult nutrition packets and canning brochures come from the U.S. Department of Agriculture. It may not require a faculty member to distribute these to county agents because a clerk may be able to handle this.

3. It may be more efficient and more effective for the home economist county agents to recruit and train any needed food preservation volunteers through a multi-county cluster plan, rather than out of Bozeman.

4. Local county health departments offer the Women, Infants and Children Program which is providing nutrition classes and vouchers to 13,500 low-income and at-risk state residents every month, according to the Department of Health and Environmental Sciences. The health departments, public schools, and Head Start Centers provide child and family nutrition information. This may be non-essential duplication by the extension service.

5. The 1985 extension service report states that 62 school children received information about nutritious snacks through this project.

6. The 1985 extension report states that 7 percent of the total families are remaining in the three-county (Hill, Missoula, and Yellowstone) federal Expanded Food and Nutrition Education Program (EFNEP). The legislature may ask that county extension agents in those three counties provide supervision if they and their local advisory boards decided that it is a local priority.

4-H

The agency has two full-time 4-H youth specialists at a fiscal 1987 cost of $70,502 whose four-year plan of work includes the following objectives: (1) Provide training materials to 3,500 volunteer leaders and literature to 4-H club members; (2) develop additional materials for volunteer leaders; (3) conduct training programs for leaders in cooperation with county agents; and (4) participate in fairs, rodeos, etc. The 1985 annual report states that these two county extension specialists trained county agents from 20 counties in "Helps for New 4-H Leaders" and sent a 4-H newsletter to counties.

Because 4-H is a well-developed, standardized program, it may be asked whether two full-time extension specialists really are required to distribute materials to county agents for leaders and youth, to periodically update materials as necessary, to train new county agents, and to prepare a 4-H newsletter. This may be considered a

reasonable workload for one full-time specialist and a (part-time) secretary. The county agents and the volunteer leaders participate directly themselves in fairs, rodeos, etc.

Health

The health specialist half-time position was vacant and filled again in September 1985. The agency's four-year work plan includes: (1) prepare a fact sheet on consumer health and a home study course on health to be piloted in several counties and a computer-assisted package for public schools to be piloted in several counties; (2) develop a home study course on emergency child care; (3) provide the exercise program for the foods and nutrition specialist's weight-loss classes, and set up several portable testing stations to measure blood pressure, resting heart rate, and strength.

This work plan duplicates health education courses provided by public school teachers and nurses; programs on consumer health and child care by the Department of Health and Environmental Sciences and county health departments; and American Red cross first aid, CPR, and emergency care training programs.

Interior Design

The four-year plan of work for this position includes the following four projects for 1984-1987: (1) prepare information on purchasing upholstered furniture, casegoods, mattresses, used furniture, and kit furniture, and train county agents on furniture restoration; (2) prepare or provide information on carpets, solarwise floorcovers, wood floors, etc; (3) develop or provide fact sheets on designing interiors for use with wood and coal stoves and incorporating thermal mass; and (4) fact sheets on selecting a home computer, selecting a telephone, and appliance maintenance. The 1986 update report adds a project to train county agents, Housing Authority personnel, and public school teachers the basics of housecleaning and homemaking skills.

When this kind of information is needed, there are many sources: free or low-cost brochures are available from magazines; stores and home fairs have literature displays; and libraries have books and periodicals. There are continuing education classes on furniture refinishing. Again, it may be possible for a clerk to distribute to county agents such interior design materials as are available from the U.S. Department of Agriculture and, if necessary, for the extension service to contract with someone every two or three years to provide a continuing education workshop for county extension agents.

Safety

This is a .13 FTE vacant position designed to, according to the four-year work plan: (1) provide a series of workshops on farm tractors and machinery safety; (2) present information at county and area meetings on energy alternatives and conservation; (3) provide information on woodlot management, assistance in forestry harvesting, timber supplies, and Eastern Montana shelterbelts. The 1985 report highlights the following achievements: 600 people received information on winter survival; 2,248 families received information about wood stoves; 3,209 youth attended hazardous occupational training in 20 counties; and 10 percent of the Emergency Medical Technicians now have greater awareness of machinery operation.

It may be more efficient for a clerk to distribute U.S. Department of Agriculture safety brochures to county extension agents. An agricultural experiment station faculty member could provide a workshop every three years to update farm safety information for county agents. The energy conservation project may belong with the Department of Natural Resources and Conservation. The forestry and woodlot objectives may belong with the forestry extension specialist or the Forest and Conservation Experiment Station at Missoula. Wood stove information is available from many sources and literature could be maintained at the county extension offices. The Sierra Club and other non-profit organizations provide winter survival training.

In conclusion, the legislature may decide that the priority portions of programs being provided by these 7.63 specialists are being or can be provided by clerks, by contract personnel every two or three years, by the faculty of the agricultural experiment station having minimal split extension appointments, by other state agencies, and by the private sector. In that case, it could reduce the number of program specialists in the areas recognized as duplicative or low priority for long-term fiscal personal services savings of $35,251 for each FTE eliminated, plus related operating costs of $6,413 each. This would have no impact on the remaining 22.54 extension specialists in farm management, range, agronomy, livestock, pesticides, sheep, weeds, tillage, dairy, swine, horticulture, soils, engineering, stress, and clothing.

Option A: Direct the agency to eliminate 9.31 FTE extension specialists at a general fund savings in fiscal 1987 of $318,896.

Option B: Take no action.

ISSUE 3: CLASSIFIED PERSONNEL

There are 12.97 FTE classified positions in the specialty program units, resulting in a ratio of .43 secretaries and administrative assistants to each extension specialist. This is higher than many other agencies, especially with word processors and modern office equipment. For example, the Department of Commerce Office of Economic Analysis, doing similar work, has a ratio of .33 support personnel to one professional, and the Department of Revenue Research Bureau has a ratio of .25 support personnel to one professional. A private writing and publishing company reports it has about .33 secretaries and administrative assistants for each professional, and a professional office providing temporary help also reports that most agencies it serves have ratios between .25 and .33 support personnel to one professional.

These 12.97 FTE extension service support personnel have an average fiscal 1987 personal services cost of $17,752 each and are summarized in table 5.

Table 5
Support Personnel for Extension Specialists

Job Title	FTE	Fiscal 1987 Personal Services Costs
Administrative Assistant	1.00	$ 17,752
Administrative Secretary I	0.67	11,894
Laboratory Aide II	0.30	5,326
Secretary II	10.50	186,396
Secretary III	0.50	8,876
Total	12.97	$230,244

If the legislature decides to bring the number of extension classified secretaries and administrative assistants more into line with the .25 to .33 ratio of other agencies, four options are presented in table 6.

Table 6
Reduction of Classified Support Personnel for Extension Specialists

Options	Specialists*	.33 Support	.25 Support	- - - Dollar Savings - - .33	.25
Option A	30.17	9.96	---	$54,939	-0-
Option B	30.17	---	7.54	-0-	$ 99,108
Option C	22.54	7.44	---	100,934	-0-
Option D	22.54	---	5.64	-0-	133,787

*Number of 12 month equivalent positions.

Option A provides a ratio of .33 support personnel, or 9.96 FTE classified, to the current level 30.17 specialists. The savings are $54,939, with $53,434 in personnel costs and $1,505 in related operating expense. All four options include reductions of $500 in related operating expense per FTE classified.

Option B provides a ratio of .25 support personnel, or 7.54 FTE classified, to the current level 30.17 specialists. This is a reduction of 5.43 classified and related operating expense for a total savings of $99,108.

Options C and D relate to the possible duplications and low priority areas of work presented under Issue 2. For 22.54 extension specialists, Option C provides a ratio of .33 support personnel, or 7.44 FTE classified, for a savings of $100,934. Option D offers for consideration a ratio of .25 support personnel for 22.54 specialists, or 5.64 FTE classified. Option D savings would be $133,787.

Option A: Reduce classified support personnel to a .33 ratio for 30.17 specialists at a $54,939 savings.

Option B: Reduce classified support personnel to a .25 ratio for 30.17 specialists at a $99,108 savings.

Option C: Reduce classified support personnel to a .33 ratio for 22.54 specialists at a $100,934 savings.

Option D: Reduce classified support personnel to a .25 ratio for 22.54 specialists at a $133,787 savings.

ISSUE 4: EQUIPMENT

In fiscal 1984 and 1985, the agency expended $77,818 for equipment and capital items including appropriations for two word processors and ten IBM typewriters. The Forty-ninth Legislature appropriated funds for 13 additional typewriters in fiscal 1986 and 1987. That makes total replacement of 23 typewriters, plus two new word processors, for the 20.17 secretaries and other staff in four years. Agency officials report that, in fiscal 1986, the extension service has 58 typewriters and 31 personal computers with word processing capabilities.

An IBM customer service representative reports that extension service's IBM typewriters should last at least eight years and that "the rule of thumb" for federal agencies and most agencies is eight to ten years. Therefore, the legislature may want to eliminate six duplicative typewriters in fiscal 1987 for a cost savings of $3,932.

Option A: Eliminate six replacement typewriters for a fiscal 1987 savings of $3,932.

Option B: Take no action.

MONTANA FOREST AND CONSERVATION EXPERIMENT STATION

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
FTE	19.21	19.21	19.21	19.21	0.00
Personal Service	$510,531	$520,420	$521,258	$538,258	3.4
Operating Expense	137,032	124,403	135,559	139,820	12.4
Equipment	25,694	26,853	17,127	17,500	(34.8)
Total Expenditures	$673,257	$671,676	$673,944	$695,578	3.6
Fund Source					
General Fund	$673,257	$671,676	$121,636	$695,578	3.6
Resource Indemnity Trust	-0-	-0-	552,308	-0-	---
Total Funds	$673,257	$671,676	$673,944	$695,578	3.6

The Montana Forest and Conservation Experiment Station generates research and publications concerning productivity and wise use of forests, associated rangelands, water, wildlife, and recreation resources. The forestry experiment station operates the Lubrecht Experimental Forest and is the research branch of the University of Montana School of Forestry in Missoula.

Operating expenses increase 12.4 percent from fiscal 1985 to 1987, primarily because the agency spent only 93 percent of its fiscal 1985 operating expense appropriation. Equipment costs decrease 34.8 percent.

UNIVERSITY SYSTEM

Budget Item	Actual Fiscal 1984	Actual Fiscal 1985	After 2% Fiscal 1986	Approp. Fiscal 1987	% Change FY85-FY87
MSU	$ 43,119,843	$ 44,554,179	$ 45,335,927	$ 47,194,557	5.9
UM	33,962,084	34,897,379	35,951,843	37,882,777	8.6
EMC	12,953,854	13,545,034	13,804,485	14,514,260	7.2
NMC	6,761,867	7,422,144	7,586,260	8,022,004	8.1
WMC	3,588,856	3,743,125	3,961,903	4,204,284	12.3
MCMST	8,995,170	9,788,230	8,850,268	9,104,036	(7.0)
System Total	$109,381,674	$113,950,091	$115,490,686	$120,921,918	6.1
Fund Sources					
General Fund	$ 71,835,679	$ 74,686,429	$ 73,238,916	$ 76,832,704	2.9
Tuition and Fees	21,114,658	22,221,438	25,334,522	27,153,768	22.2
Millage	13,074,000	13,787,210	14,384,000	14,669,000	6.4
Land Grant	980,515	944,291	-0-	-0-	---
Indirect Costs	1,707,946	1,718,454	1,604,000	1,604,000	(6.7)
Other	668,876	592,269	929,248	662,446	11.8
Total Funds	$109,381,674	$113,950,091	$115,490,686	$120,921,918	6.1

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 Other Funds
1. Declining Enrollment	$(3,372,937)	$(1,452,982)
2. Reduce Formula Support Level		
Option A: Roll Back to 1985 Level	$(1,860,909)	-0-
Option B: Maintain Fiscal 1986 Level	$(700,184)	-0-
3. Six Mill Levy Fund Balance	$(4,807,819)	$4,807,819

The six units of the Montana University System include Montana State University at Bozeman, the University of Montana at Missoula, Eastern Montana College at Billings, Northern Montana College at Havre, Western Montana College at Dillon, and the Montana College of Mineral Science and Technology at Butte. The six units collectively serve over 25,000 full time equivalent students in several discipline areas: liberal arts, fine arts, social sciences, biological sciences, physical sciences, educa-

tion, business, engineering, technology, home economics, health, law, pharmacy, journalism, forestry, agriculture, and architecture.

The 1987 biennium budget was generated using the formula developed by the Legislative Finance Committee and implemented in the 1981 session. This formula is comprised of two major elements: an enrollment driven portion for the instruction and support programs and the incremental budget for the research, public service, and physical plant programs. Several non-formula adjustments totaling $2,159,292 in the 1987 biennium were also approved.

From fiscal 1985 to 1987 the total six unit expenditures are budgeted to increase 6.1 percent. Individual unit expenditure changes between fiscal 1985 and 1987 range from a 12.3 percent increase at Western Montana College to 7 percent decrease at Montana College of Mineral Science and Technology. Approximately 80 percent of the University System's appropriation in fiscal 1987 is directly related to enrollment. While enrollment was budgeted to decrease .6 percent in fiscal 1987 from actual fiscal 1985 levels, inflation, the pay plan, and increased formula support offset any expenditure decrease caused by falling enrollment.

General fund was budgeted to increase 2.9 percent while other funds increase 12.3 percent. Most of the increase comes from a Board of Regent approved 30 percent increase in tuition and fee rates from fiscal 1985 to fiscal 1987. The 1985 legislature approved the removal of $970,000 of land grant income as a current unrestricted operating revenue source which resulted in the concurrent increase of general fund support for the university system.

Programs for the university budgets include instruction, organized research, public service, operation and maintenance of plant, and scholarships and fellowships. The 1987 biennium appropriation by program for each university unit is listed in table 1 on the following page. The appropriations for the academic support, student services, and institutional support programs are combined into one program called

support. Table 1 also reflects the two percent reduction ordered by the Governor in January 1986 and lists the 1987 biennium pay plan allocation to each unit.

Table 1
1987 Biennium Program Appropriation by Unit
Montana University System

Fiscal 1986*	MSU	UM	EMC	NMC	WMC	MCMST	TOTAL
Instruction	$24,868,304	$18,374,002	$ 6,646,879	$4,097,688	$1,663,365	$4,447,942	$ 60,098,180
Support	13,330,770	10,543,784	4,561,067	2,243,726	1,505,131	2,847,249	35,031,727
Research	562,236	456,053	-0-	-0-	-0-	41,796	1,060,085
Public Service	10,100	192,302	221,758	9,107	-0-	-0-	433,267
Physical Plant	5,116,638	5,043,862	1,904,062	900,171	669,003	1,160,053	14,793,789
Scholar. and Fellowships	896,879	929,840	313,719	249,568	75,404	253,228	2,718,638
Pay Plan	551,000	412,000	157,000	86,000	49,000	100,000	1,355,000
Total	$45,335,927	$35,951,843	$13,804,485	$7,586,260	$3,961,903	$8,850,268	$115,490,686

Fiscal 1987	MSU	UM	EMC	NMC	WMC	MSMST	TOTAL
Instruction	$24,935,447	$18,738,093	$ 6,720,915	$4,228,706	$1,696,423	$4,191,187	$ 60,510,771
Support	13,710,725	10,920,168	4,729,420	2,317,920	1,565,525	2,925,316	36,169,074
Research	571,378	508,649	-0-	-0-	-0-	42,340	1,122,367
Public Service	10,182	199,261	221,905	9,197	-0-	-0-	440,545
Physical Plant	5,270,903	5,210,504	2,000,066	917,591	703,706	1,358,120	15,460,890
Scholar. and Fellowships	954,922	996,102	342,954	272,590	82,630	273,073	2,922,271
Pay Plan	1,741,000	1,310,000	499,000	276,000	156,000	314,000	4,296,000
Total	$47,194,557	$37,882,777	$14,514,260	$8,022,004	$4,204,284	$9,104,036	$120,921,918

*Reflects 2 percent reduction.

ISSUE 1: DECLINING ENROLLMENT

The formula relies heavily on student enrollment estimates to develop the instruction and support program budgets. Scholarships and fellowships are also impacted as part of this program's budget is based on anticipated tuition revenue which is influenced by enrollment fluctuations.

The enrollment estimate used to establish the fiscal 1986 appropriation was 2.4 percent higher than the actual enrollment. Based on recent enrollment reports and

an examination of enrollment factors, such as high school graduates and survival ratios, this office now projects an overall enrollment decrease of 4.9 percent in fiscal 1987 from the appropriated level. Table 2 presents actual enrollments for fiscal years 1984 to 1986, the 1987 appropriated enrollment, and the revised 1987 enrollment estimate.

Table 2
Full-Time Equivalent Students
Fiscal 1984 to 1986 Actual, Fiscal 1987 Budgeted, Fiscal 1987 Revised

	ACTUAL			Approp.	Estimated	% Change Est. Vs.
	Fiscal 84	Fiscal 85	Fiscal 86	Fiscal 87	Fiscal 87	Approp.
MSU	10,782	10,340	10,097	10,211	9,658	(5.4)
UM	8,336	8,193	8,144	8,099	7,895	(2.5)
EMC	3,503	3,420	3,442	3,494	3,318	(5.0)
NMC	1,745	1,707	1,693	1,737	1,689	(2.8)
WMC	882	880	854	873	826	(5.4)
MCMST	2,090	1,880	1,659	1,837	1,569	(14.6)
Total	27,338	26,420	25,889	26,251	24,955	(4.9)

As the enrollment estimate is now less for fiscal 1987 than the estimate used to set the appropriation, the legislature may want to consider reducing the instruction, support, and scholarship and fellowship program appropriations to reflect the revised estimate. Table 3 summarizes the fiscal impact to these programs and to the tuition revenue estimate and the general fund. The systemwide expenditure reduction would be $4.82 million in fiscal 1987, a 4 percent reduction from the current appropriated level. The systemwide tuition revenue reduction is estimated at $1.45 million resulting in a general fund reduction of $3.37 million.

Option A: Reduce the fiscal 1987 enrollment estimates to a systemwide enrollment of 24,955 FTE students. This would result in an overall expenditure reduction of $4.82 million, a tuition reduction of $1.45 million, and a general fund reduction of $3.37 million.

Option B: Take no action.

Table 3
Declining Enrollment
Expenditure and Revenue Impact
Fiscal 1987

Program Impact	MSU	UM	EMC	NMC	WMC	MCMST	TOTAL
Instruction	$(1,350,436)	$(460,262)	$(338,546)	$(116,856)	$(112,908)	$ (611,453)	$(2,990,461)
Support	(742,536)	(275,061)	(238,231)	(64,053)	(62,707)	(426,774)	(1,809,362)
Scholarships and Fellowships	123,284	(43,159)	17,448	(61,149)	(18,874)	(43,647)	(26,097)
Total Expenditure Impact	$(1,969,688)	$(778,482)	$(559,329)	$(242,058)	$(194,489)	$(1,081,874)	$(4,825,920)
Revenue Impact							
General Fund	$ (972,873)	$(559,871)	$(519,814)	$(240,376)	$(116,177)	$ (963,827)	$(3,372,938)
Tuition	(996,815)	(218,611)	(39,515)	(1,682)	(78,312)	(118,047)	(1,452,982)
Total Revenue Impact	$(1,969,688)	$(778,482)	$(559,329)	$(242,058)	$(194,489)	$(1,081,874)	$(4,825,920)

ISSUE 2: REDUCE FORMULA SUPPORT

Since the formula was implemented in 1981, the legislature has generally chosen to fund the formula driven budget at levels less than 100 percent of peer institutions. In the 1985 biennium, the instruction program was funded at 97 percent of the peers and the support program was funded at 95 percent of the peers. The 49th Legislature increased the formula support to the University System. In fiscal 1986 the instruction program is funded at 99 percent of the peers while the support program is funded at 97 percent of the peers.

In light of the tight fiscal situation, the legislature may want to consider reducing the formula support level in both the instruction and support programs to the fiscal 1985 level: 97 percent for instruction and 95 percent for support. This would result in an expenditure decrease of $1.86 million from the 1987 appropriated level if the enrollment is decreased as described in Issue 1. The entire savings would be

general fund. The impact on each unit's support program is listed as Option A in table 4.

An alternative to rolling back to the 1985 level is to hold the formula support levels at the 1986 level. This would impact only the support programs and result in 95 percent funding for the support program rather than 97 percent currently appropriated. The total expenditure reduction would be $700,184 if the enrollment is decreased as described in Issue 1. This option would also result in a dollar for dollar general fund reduction. The impact on each unit's support program is listed as Option B in table 4.

Table 4
Reduce Legislative Funding Level
Expenditure and Revenue Impact
Fiscal 1987

Option A: Roll back to 1985 level

Programs	MSU	UM	EMC	NMC	WMC	MCMST	TOTAL
Instruction	$(476,465)	$(359,851)	$(128,937)	$(83,068)	$(40,087)	$(72,317)	$(1,160,725)
Support	(267,385)	(219,487)	(92,602)	(46,471)	(22,722)	(51,517)	(700,184)
Total Expenditure Reduction	$(743,850)	$(579,338)	$(221,539)	$(129,539)	$(62,809)	$(123,834)	$(1,860,909)
General Fund Reduction	$(743,850)	$(579,338)	$(221,539)	$(129,539)	$(62,809)	$(123,834)	$(1,860,909)

Option B: Maintain 1986 level

Programs	MSU	UM	EMC	NMC	WMC	MCMST	TOTAL
Instruction	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
Support	(267,385)	(219,487)	(92,602)	(46,471)	(22,722)	(51,517)	(700,184)
Total Expenditure Reduction	$(267,385)	$(219,487)	$(92,602)	$(46,471)	$(22,722)	$(51,517)	$(700,184)
General Fund Reduction	$(267,385)	$(219,487)	$(92,602)	$(46,471)	$(22,722)	$(51,517)	$(700,184)

Option A: Reduce the formula support level to 97 percent for the instruction program and 95 percent for support programs, resulting in a general fund reduction of $1.86 million in fiscal 1987.

Option B: Reduce the formula support level of the support program only to the fiscal 1986 level of 95 percent. This would result in a general fund reduction of $700,184 in fiscal 1987.

Option C: Take no action.

ISSUE 3: UNIVERSITY SIX MILL LEVY FUND BALANCE

Section 20-25-423, MCA, provides for the statewide university six mill levy. These funds are "for the support, maintenance, and improvement of the Montana University System and other public educational institutions subject to Board of Regent supervision." These funds are appropriated by the legislature and have been used almost exclusively to support the general operations of the six university units.

For several years, the introductory boilerplate language in the general appropriations act has included a provision calling for a decrease in the general fund appropriation for an agency by the amount of funds received from other sources in excess of the appropriation contained in the appropriations act. Section 17F of the 1987 biennium general appropriations act further states that revenues received by the university system under the provisions of Section 20-25-423, MCA, that exceed $14,384,000 in fiscal 1986 and $14,669,000 in fiscal 1987 must cause a general fund reversion of a like amount each year. The university millage state special revenue account began carrying a fund balance in fiscal year 1984, but there has been no general fund reduction. As of fiscal year-end 1985, this account had a fund balance of $3,690,231.

Table 5 below shows the fund analysis for this account for fiscal years 1982 to 1985 actual and estimated for the 1987 biennium. The estimated 1987 biennium ending fund balance is $4,807,819 assuming no general fund reversion in fiscal 1986.

It has been the intent of the legislature that any revenue collection exceeding the legislative appropriation shall cause a like reduction of general fund. As this account is estimated to have a fiscal 1987 ending fund balance of $4,807,819, this is available for current level operations of the University System and should cause a similar reduction in general fund. This would not impact any unit's expenditures, but would save $4,807,819 general fund in the current biennium.

Table 5
University Millage Fund Analysis
Fiscal Years 1982 to 1987

	ACTUAL				Estimated
	Fiscal 1982	Fiscal 1983	Fiscal 1984	Fiscal 1985	1987 Biennium
Beginning Fund Balance	$ 132,529	$ 1	$ -0-	$ 832,226	$ 3,690,231
Receipts	12,139,866	12,215,135	12,886,596	14,703,333	30,170,588
Total Funds Available	$12,272,395	$12,215,136	$12,886,596	$15,535,559	$33,860,819
Expenditures	$12,272,394	$13,079,452	$13,074,000	$14,078,000	$29,053,000
Prior Year Adjustments	-0-	(1,508,815)	(1,019,630)	(2,232,671)	-0-
Total Exp. & Adjust.	$12,272,394	$11,570,637	$12,054,370	$11,845,329	$29,053,000
Net Operations	$ 1	$ 644,499	$ 832,226	$ 3,690,230	$ 4,807,819
Adjustments	-0-	(644,499)	-0-	1	-0-
Ending Fund Balance	$ 1	$ -0-	$ 832,226	$ 3,690,231	$ 4,807,819

Option A: Reduce the fiscal 1987 general fund appropriation by $4,807,819 and increase the six mill levy appropriation by a like amount.

Option B: Take no action.

LONG RANGE PLANNING

LONG RANGE BUILDING PROGRAM

Issues	LRBP Funds Available
1. Excess cash available in the cash account (05007)	$2,028,521
2. Project reversions	213,666
3. Project delays	459,350
4. Excess cash available in the capitol renovation account (05003)	401,000
Total LRBP Funds Available	$3,102,537

ISSUES	Fiscal 1987 General Fund	Fiscal 1987 LRBP Funds
1. Excess Cash in LRBP Cash Account		
Option A: Transfer to general fund	$2,028,521	$(2,028,521)
Option B: Divert cigarette tax	$1,891,750	$(1,891,750)
2. Project Reversions		
Option A: Revert unexpended balances	-0-	$158,865
Option B: Revert approp. auth. - heating unit	-0-	$2,500
Option C: Revert approp. auth. - street improv.	-0-	$17,000
Option D: Shift funding - Giant Springs St. Park	-0-	$35,301
Option E: Transfer to general fund	$213,666	$(213,666)
3. Project Delays		
Option A: Revert appropriation authority on projects not yet begun	-0-	$459,350
Option B: Transfer to general fund	$459,350	$(459,350)
4. Interest Earnings on Capitol Renovation Bonds		
Option A: Transfer to LRBP cash account	-0-	-0-
Option B: Transfer to general fund	$401,000	$(401,000)
5. Executive Proposal		
Option A: Transfer capitol renovation bond proceeds to general fund	$5,100,000	$(5,100,000)

The Long-Range Building Program (LRBP) includes the appropriations for planning, major maintenance, and construction of state buildings. The building program is supervised by the Architecture and Engineering Division of the Department of Administration.

Four "cash recovery" options appear to be available to the legislature in the Long-Range Building Program. First, a review of the long-range building cash pro-

gram indicates that $2.029 million will be available in excess of the amount needed to cover outstanding appropriations. Second, $213,666 could potentially be recovered by reverting the unexpended balances on completed projects. Third, the cancellation or delay of five projects for which construction has not begun would make $459,350 available. Fourth, the delayed capitol renovation project will generate approximately $401,000 more in interest than was anticipated during the 1985 legislative session. In total, $3.1 million is estimated to be available through additional interest earnings and project delays in the Long-Range Building Program.

ISSUE 1: EXCESS CASH AVAILABLE

The LRBP cash account receives supervisory fees, 20.25 percent of cigarette tax collections, and interest earnings from the investment of cash balances in the cash account, the 1981 bond series, the 1983 bond series, and the capitol renovation accounts.

Table 1 shows the cash flow within the long-range building cash program. The estimated excess cash available in fiscal 1987 is $2,028,521.

Table 1
Cash Available in LRBP Cash Account
1987 Biennium

Funds Available (4/30/86)		$ 8,335,459
Projected Revenues		
Cigarette tax for remainder of fiscal 1986	$ 458,585	
Cigarette tax for fiscal 1987 (20.25%)	2,512,000	
Supervisory fees	60,000	
From capitol renovation account - July 1986	169,419	
Interest due on securities - October 1986	205,919	
STIP earnings - $4 million at 7.25%	300,000	
Total Revenues		3,705,923
Transfer of Excess Interest from Bond Series Accounts		
1981 Bond Series - July 1986	$ 23,000	
1983 Bond Series - August 1986	1,001,200	
1983 Bond Series - October 1986	3,230,000	
Total Transfers		4,254,200
Total Cash Available to Fund Appropriations		$ 16,295,582
Outstanding Appropriation Authority		(13,716,814)
Architecture and Engineering Operations Fiscal 1987		(550,247)
Excess Cash Available for Appropriation		$ 2,028,521

The increase in the estimate of excess cash available is explained by an increase in interest earnings on cash balances. While interest rates are presently lower than anticipated during the 1985 regular session, the cash balances are considerably higher. For the two largest projects to receive appropriations by the 1985 legislature (Johnson/Wilson Hall at MSU for $1.98 million and the Warm Springs forensic unit for $6 million), only a small portion of these appropriations have been expended to date. Delays in federal matching funds have held up the expenditure of state capital project funds for Department of Military Affairs projects. Finally, the balance of funds

available at the end of fiscal 1985 was $0.8 million higher than anticipated during the 1985 session.

Option A: Set up an appropriation to transfer $2,028,521 of the excess cash available in the cash account to the general fund, and amend Section 17-5-404, MCA, to do so.

Option B: Temporarily increase the allocation of the cigarette tax to the general fund for fiscal 1987. If the present allocation of the cigarette tax to the cash account were reduced from 20.25 percent to 5 percent in fiscal 1987, the fund balance would be drawn down. By increasing the allocation of the cigarette tax to the general fund from 79.75 percent to 95 percent, the general fund would gain $1,891,750 in fiscal 1987.

Option C: Retain the fund balance in long-range building cash account for future appropriations.

ISSUE 2: PROJECT REVERSIONS

Table 2 provides a list of project appropriations that could potentially revert. The table shows the fiscal year for which an appropriation was made and the status of the project. Potential reversions in table 2 total $213,666.

Table 2
Long-Range Building Program
Potential Reversions

Approp. Date	Project	Status	Reversion
1978	MT Tech - Sewer Line	completed	$ 13,699
1979	Justice and Library Building	completed	144,665
1981	Fort Harrison - Auxiliary Heating	(1)	2,500
1983	Original Governor's Mansion	completed	501
1983	Street Improvements - Military Affairs	(1)	17,000
1983	Giant Springs State Park Improvement	(2)	35,301
	Total Reversions		$213,666

(1)Federal matching funds have not been forthcoming.
(2)Appropriation authority could be transferred to a FWP account.

The sewer line project at Montana Tech has been completed since 1980, but the engineer on the project has refused to submit a final bill. The eight year statute of limitations on this contract will expire in 1988.

The 1981 appropriation for an auxiliary heating unit at Fort Harrison was contingent on a $7,500 federal match which did not materialize. The Department of Military Affairs has said that it intends to revert the $2,500 state appropriation.

The street improvement in Anaconda is also a Department of Military Affairs project. The 1983 appropriation is for raising and paving a parking lot to correct flooding problems which the department is presently experiencing. The specifications and design work have been completed, but the project has been delayed because there is no asphalt plant currently operating in the Anaconda area. The expense of setting up an asphalt plant prevents the department from going ahead with the project until a larger asphalt project develops. Only in conjunction with another project, such as highway construction or a special improvement district, is the project

affordable. The funding for this project could revert, and the department could request appropriation authority for the project at such time that the project becomes feasible.

The 1983 appropriation for Giant Springs State Park is for landscaping when the construction of the Fish, Wildlife and Parks regional headquarters is completed. This $35,301 appropriation from the long-range building cash account could be replaced with an appropriation from either the FWP license fee or the coal tax park acquisition account.

The remaining projects in the above list are completed, and the funds can revert on these completed projects.

Option A: Revert $158,865 in unexpended fund balances on completed LRBP projects.

Option B: Revert the $2,500 appropriation authority for the auxiliary heating unit at Fort Harrison.

Option C: Revert the appropriation authority on the street improvements project in Anaconda, which has an unencumbered balance of $17,000.

Option D: Revert the $35,301 appropriation authority on the Giant Springs State Park project. Re-appropriate the project from the coal tax park acquisition account or the FWP license account.

Option E: Transfer the reverted funds to the general fund, and amend Section 17-5-404, MCA, to do so.

Option F: Take no action.

ISSUE 3: PROJECT DELAYS

Five projects which were funded by the 1985 legislature are not yet under construction. These five projects are listed in table 3.

Table 3
Long-Range Building Cash Program
Potential Project Delays

Project	Appropriation
Organizational Shop - Belgrade	$ 25,200
Organizational Shop - Culbertson	25,200
Fire Protection in Capitol Complex	350,000
Fire Crew Quarters - State Lands	44,000
Rip Rap Prickley Pear Creek	14,950
Total	$459,350

The construction of the two Department of Military Affairs organizational shops is contingent on a federal match which will not be available in the 1987 biennium. The Department of Military Affairs anticipates that these two projects will be delayed until fiscal 1988 due to delays in federal funds. The fire protection project in the capitol complex has been delayed because of revisions in the project scope. The fire crew quarters project for the Department of State Lands received a low priority in the long-range building bill, and funding was made contingent upon the availability of funds after other appropriations had been met. The appropriation authority was established in September 1985, and the project will not be started until the summer of 1986. The rip rapping of Prickley Pear Creek at Mountain View School has been delayed by disagreements between U.S. Department of Fish and Wildlife and the Soil Conservation Service concerning the protection of fish habitat.

Option A: Revert the $459,350 appropriation authority for the above projects and request that these projects be included in the capital construction program submitted to the 50th legislature.

Option B: Transfer $459,350 to the general fund from the cash account. Amend Section 17-5-404, MCA, to do so.

Option C: Allow these projects to go ahead as scheduled.

ISSUE 4: INTEREST EARNINGS ON CAPITOL RENOVATION BOND PROCEEDS

In 1981, the legislature authorized the sale of a $5 million bond issue for the renovation of the State Capitol. Following the bond sale, the renovation project was delayed and continues to be "on hold" in the 1987 biennium. The 1985 legislature appropriated $1,347,236 of the interest earnings on the capitol renovation bond proceeds to the LRBP cash account. By the end of fiscal 1987, the excess cash available is estimated to increase to $1,748,236. Although the 1985 legislature planned on the availability of $1,347,236 of these interest earnings, an additional $401,000 is now estimated to be available. An appropriation could be set up to transfer all or part of the $401,000 to the cash program when it becomes available at the end of fiscal 1987. These excess earnings in the capitol renovation account do not transfer automatically; they would have to be appropriated to the cash account.

Option A: Set up an appropriation to transfer the $401,000 of excess cash in the capitol renovation account to the long-range building cash account to serve as a reserve.

Option B: Set up an appropriation to transfer the $401,000 of excess cash in the capitol renovation account to the general fund.

Option C: Leave the $401,000 of excess cash in the capitol renovation account.

ISSUE 5: TRANSFER BOND PROCEEDS TO GENERAL FUND

The unencumbered balance in the capitol renovation bond proceeds account is currently $5.1 million. These funds are available to transfer to the general fund as the executive budget proposes.

Two legal issues have arisen concerning the propriety of such a transfer:

1. Would the transfer of bond proceeds to the general fund violate the conditions for issuing state debt under Article VIII, Section 8 of the Montana Constitution?

2. The enabling act for the State of Montana places restrictions on the use of capital land grant revenue. Would these restrictions be violated by the proposed transfer?

The legal staff of the Legislative Council, in conjunction with the state's bond counsel (Dorsey-Whitney in Minneapolis, MN), is developing an opinion on these issues. The opinion should be available when the special session convenes.

ISSUES IN GOVERNOR'S BUDGET - - - - - - - - - - - - - - - - - -	Fiscal 1987 - - - - - General Fund	Other Funds
Gov. 1. Redirect RIT Tax - Fiscal 1987		
Option A: Governor's Est. RIT Tax	$4,063,000	$(4,063,000)
Option B: LFA Estimated RIT Tax	$4,526,540	$(4,526,540)
Gov. 2. Redirect Education Trust Coal Tax		
Option A: Governor's Est. Coal Tax	$7,043,000	$(7,043,000)
Option B: LFA Estimated Coal Tax	$7,330,918	$(7,330,918)

ISSUE GOV. 1: REDIRECT RESOURCE INDEMNITY TRUST TAX

The Resource Indemnity Trust (RIT) receives the proceeds of a one-half percent tax on the extraction of non-renewable natural resources. Section 15-38-202, MCA, provides that only the net earnings may be appropriated and expended until the fund reaches $100 million. The ending balance in the trust for fiscal 1986 is projected to be $53.4 million.

The Governor has proposed that the RIT tax for fiscal 1987 be redirected to the general fund. This action would require an amendment to Section 15-38-202, MCA, to allow expenditures of the trust principal, and an amendment to Section 15-38-203, MCA, which specifies that expendable funds "shall be used and expended to improve the environment and rectify damage thereto." The Governor's executive budget has estimated the amount of RIT tax redirected in fiscal 1987 will be $4,063,000. The Office of the Legislative Fiscal Analyst estimates that the amount of tax collected in fiscal 1987 will be $4,526,540.

The Governor's proposal would impact neither the current trust account balance nor current allocations of interest earnings from the trust account but would impact future interest earnings. Based upon the LFA estimated RIT tax, future interest earnings would be reduced an estimated $104,700 in fiscal 1987, $440,500 in fiscal 1988, and $464,000 in fiscal 1989 and beyond until the trust fund balance reaches

$100 million, assuming an average interest rate on new investments of 9.25 percent in 1987, 9.73 percent in 1988, and 10.25 percent in 1989 and beyond.

Option A: Redirect fiscal 1987 RIT tax revenues from the trust account to general fund utilizing the Governor's $4,063,000 estimate.

Option B: Redirect fiscal 1987 RIT tax revenues from the trust account to general fund utilizing the LFA's $4,526,540 estimate.

Option C: Take no action.

ISSUE GOV. 2: REDIRECT EDUCATION TRUST COAL TAX

The education trust is allocated a designated percentage of coal tax revenues. The projected balance in the trust at the end of fiscal 1986 is $79.3 million.

The Governor's executive budget proposed that the education coal tax revenues for fiscal years 1987 through 1989 be redirected from the trust to the general fund. This would require an amendment to Section 15-35-108(3)(b), MCA, which allocates coal tax to the education trust. The Governor has estimated the amount of coal tax revenue redirected in fiscal 1987 will be $7,043,000. The Office of the Legislative Fiscal Analyst estimates that the amount of tax allocated in fiscal 1987 will be $7,330,918.

The Governor's proposal would impact neither the current trust account balance nor current allocations of interest earnings from the trust account, but would impact future interest earnings. There would be reduced interest earnings in fiscal 1987 and beyond to support the school foundation program, university system programs, and vocational and adult education programs. The coal tax allocation percentage, the coal tax revenues, and the amount of reduction of future interest earnings through 1989 are presented in table 1. The table assumes an average interest rate on new investments of 9.25 percent in 1987, 9.73 percent in 1988, and 10.25 percent in 1989.

Table 1
Education Trust Fund Interest - Impact of Governor's Executive Budget Proposal
Projected - Fiscal 1987 through 1989

Fiscal Year	Coal Tax Allocation	Coal Tax Revenue*	Useable Income Current Law*	Useable Income Gov. Proposal	Reduction in Useable Income
1987	8.8%	$7,330,918	$11,306,621	$10,739,700	$ (566,921)
1988	10.96%	9,797,300	10,885,500	9,664,700	(1,220,800)
1989	10.96%	10,584,100	11,913,800	9,698,200	(2,215,600)

*Estimate of the Office of the Legislative Fiscal Analyst

Option A: Redirect fiscal 1987 coal tax revenues from the Education Trust Fund to the general fund utilizing the Governor's $7,043,000 estimate.

Option B: Redirect fiscal 1987 coal tax revenues from the Education Trust Fund to the general fund utilizing the LFA's $7,330,918 estimate.

Option C: Take no action.

NONEXPENDABLE TRUST FUNDS

The non-expendable Trust Fund consists of assets held by the State in a trustee capacity. Assets held in this fund are to be used only in accordance with the criteria established by the appropriate establishing authority. A summary of the types of trusts are shown in table 1.

Table 1
Summary of Trusts by Classification

Trust Classification	Fund Balance
Mineral Production Tax Trusts	$ 384,178,357
Land Grant Trusts	229,457,471
Bequests - Institutions	34,105
Bequests - MT Historical Society	575,788
Miscellaneous	3,772,932
Retirement Trusts	941,875,747
Total	$1,559,894,400

The 37 nonexpendable trust accounts as of June 30, 1985 are shown in table 2 on the following page.

Table 2
Nonexpendable Trust Funds - Fiscal 1985

Mineral Production Tax Trusts	Fund Balance	Source of Trust Funds	Restriction	Purpose of Useable Income
1. Coal-Permanent Trust	$230,599,696	37.5% of coal severance taxes plus 15% of investment income	Constitution Art. IX, Sec. 5	85% of investment income goes to general fund
2. Coal-In-State Investment	21,820,828	12.5% of coal severance taxes plus 15% of investment income	Constitution Art. IX, Sec. 5	Principal to be invested in Montana economy. 85% of investment income goes to general fund
3. Coal-Cultural/Parks Acquisition	13,859,181	5% of coal severance taxes after constitutional coal trust and highway reconstruction trust allocation	Statutory; MCA 15-35-108(2)(h)	1/3 to cultural/aesthetic projects, 2/3 for acquisition of park sites and areas
4. Coal-Education Trust Fund	70,500,922	20% of coal severance taxes after constitutional coal trust and highway reconstruction trust allocation	Statutory; MCA 90-6-211	10% Vo-Tech centers and Adult Basic Education; 67.5% Public School Equalization; 22.5% Board of Regents for institutions of higher learning
5. Coal Tax-Loans Loss Reserve	1,551	Coal tax loan and industrial development bond guarantee service charges and 0.25% of interest on coal tax loans	Statutory; MCA 17-5-1514, 17-6-315	Reserve Fund - to protect the in-state investment fund from losses
6. Resource Indemnity Tax	47,396,179	Tax of ½% on the extraction of oil, gas, coal, and minerals	Statutory; MCA 15-38-201	30% Water Development, 6% Hazardous Waste, balance as appropriated for environmental improvements/reclamation
Land Grant Trusts				
7. MSU	1,820,708	Permanent income such as from royalties, land sales, timber sales, and other mineral royalties	Statehood Enabling Act, Section 11	Income distributed to MSU
8. University	1,409,577	same as 7	same as 7	Income distributed to UM
9. Normal College	3,072,184	same as 7	same as 7	Income distributed to Eastern and Western Montana Colleges
10. MT Tech.	2,734,994	same as 7	same as 7	Income distributed to MT Tech
11. Common School	214,764,544	same as 7	same as 7	Income distributed to public schools
12. Deaf & Blind School	1,304,002	same as 7	same as 7	Income distributed to Montana School for the Deaf and Blind
13. Pine Hills School	1,852,552	same as 7	same as 7	Income distributed to Pine Hills School
14. Morrill	2,477,756	same as 7	same as 7	Income distributed to MSU
15. Veteran's Home	21,154	same as 7	same as 7	Income distributed to Veterans Home
Bequests - Institutions				
16. Walsh Endowment	5,000	Memorial Endowment for Senator Walsh	Bequest	Income distributed to MSU
17. Geddes Bequest	2,500	Personal bequest	Bequest	Income distributed to UM

- Continued -

Nonexpendable Trust Funds - Fiscal 1986

Bequests - Institutions	Fund Balance	Source of Trust Funds	Restriction	Purpose of Useable Income
18. Prison Inmates	$ 5,000	Personal bequest	Bequest	Income distributed to Montana State Prison Inmates Welfare Fund
19. Child Center/Galen Hospital	21,605	Permanent income, including land sales, timber sales, and royalties from real property personal bequest	Bequest	Income distributed equally to Galen Hospital and Department of Institutions
Bequests - Historical Society				
20. Thomas Teakle Trust	42,710	Cash/Stocks from Teakle estate	Bequest	Income to Historical Society
21. James H. Bradley Memorial	51,887	Memorial bequest	Bequest	Income to Historical Society for "historical endeavors"
22. General Trust	18,403	Stocks donated by individuals	Bequest	Historical Society for special projects
23. Merritt-Wheeler Memorial	12,695	Bequest by Merritt-Wheeler Families, with 100% of income invested through 1988, and 50% thereafter	Bequest	Montana Historical Society Library acquisitions after 1988
24. Charles Bair Estate	450,093	Personal bequest	Bequest	Income to Historical Society
Miscellaneous				
25. BN Geraldine Settlement	3,002,441	Proceeds from Burlington Northern in an out-of-court settlement of lawsuit stemming from BN abandonment of the Geraldine Branch line.	Legal Agreement with BN	Investment income to be used to pay costs of rebuilding/maintaining Central Montana Railroad
26. Noxious Weed Mgt. Trust	---	Revenues from 1% surcharge on sales of herbicides plus interest earned on fund	Statute; MCA 80-7-814	Noxious weed management projects
27. Real Property Trust	770,491	Revenues from sale or lease of Fish, Wildlife and Parks surplus lands or interest in lands	Statute; MCA 81-1-601(5)	Investment income for operation, development, and maintenance of real property of Department of Fish, Wildlife and Parks
Retirement Plan Trusts				
28. PERS	481,776,469	Retirement Plan contributions	Statutory	Retirement benefits
29. State Policeman Reserve	18,792,332	Retirement Plan contributions	Statutory	Retirement benefits
30. Game Wardens Retirement	5,977,755	Retirement Plan contributions	Statutory	Retirement benefits
31. Sheriff's Retirement	15,649,316	Retirement Plan contributions	Statutory	Retirement benefits
32. MT Judges Retirement	6,474,664	Retirement Plan contributions	Statutory	Retirement benefits
33. Highway Patrol Retirement	12,879,547	Retirement Plan contributions	Statutory	Retirement benefits
34. Teachers Retirement	379,239,281	Retirement Plan contributions	Statutory	Retirement benefits
35. Public Employees Retirement	29,395	Retirement Plan contributions	Statutory	Retirement benefits
36. Volunteer Firemen's Compensation	4,195,104	Retirement Plan contributions	Statutory	Retirement benefits
37. Firefighters United Retirement	16,861,884	Retirement Plan contributions	Statutory	Retirement benefits

Mineral Production Tax Trusts

The six mineral production tax trusts include four trust funds which derive their revenues from the coal severance tax. Two of the coal trusts, the Permanent and In-State Investment Trusts, collectively receive the 50 percent of the total coal severance tax revenues required by the Constitution to go into a non-expendable trust. Seventy-five percent of the funds going into the constitutional trust go to the Permanent Trust for investment and 25 percent go to the In-State Trust for investment in-state. The In-State Trust was created in fiscal 1984. Eighty-five percent of the interest earnings on the two funds are deposited in the general fund, but principal may be appropriated only by a vote of 3/4 of the members of each house of the legislature. Table 3 shows the growth of the trust and income contributed to the general fund through fiscal 1985, with projections for the 1987 biennium.

Table 3
Historic and Projected Growth in the Coal Tax Constitutional Trust
Fiscal Years 1978 through 1987

Fiscal Year	Trust Revenue	Year-End Fund Balance	Investment Income to General Fund
1978	$ 6,268,262	$ 6,268,262	$ 86,801
1979	10,672,277	16,940,539	712,165
1980	23,024,226	39,964,765	2,118,130
1981	35,222,694	75,187,459	5,099,806
1982	43,148,856	118,336,315	11,542,421
1983	40,022,491	158,358,806	18,466,762
1984	44,575,660	202,934,466	18,947,636
1985	49,486,059	252,420,525	27,399,902
- - - - - - - - - - - - - - - - - - - -	Projected	- - - - - - - - - - - - - - - - - - - -	
1986	46,801,319	299,221,844	28,763,000
1987	47,245,617	346,467,461*	32,492,000

*Balance in the permanent trust and the in-state investment trust would be $300,967,189 and $45,500,272 respectively.

The Education Trust fund, a statutorily created coal trust, allocated a designated percentage of the coal tax revenues. The percent allocation, revenues derived, and useable income for fiscal 1985 through 1987 are shown in table 4.

Table 4
Education Trust Fund Distribution
Actual Fiscal 1985 and Projected Fiscal 1987

Fiscal Year	Coal Tax Allocation	Coal Tax Revenue	Useable Income	Use
1985	10.0%	$9,174,886	$ 8,848,036	10.0% Vo-Tech/Adult Education
1986	10.0%	8,418,905	10,896,121	67.5% Public School Equalization
1987	8.8%	7,330,918	11,306,621	22.5% Higher Education

While the authority to allocate coal tax revenues to the education trust fund is statutory, Section 90-6-211, MCA, states that the principal of the education trust fund "shall be dedicated to education and forever remain inviolate and sacred to that purpose, as provided in Sections 3 and 10 of Article X of the Montana Constitution."

The Cultural/Parks Acquisition Trust is also a coal trust created by statute. Table 5 shows the percent allocation of coal tax, revenues derived, and usable income for fiscal 1985 through 1987.

Table 5
Cultural/Parks Acquisition Trust Fund Distribution
Actual Fiscal 1985 and Projected Fiscal 1986 and 1987

Fiscal Year	Coal Tax Allocation	Coal Tax Revenue	Useable Income	Use
1985	2.5%	$2,293,721	$1,458,204	1/3 Cultural/Aesthetic projects 2/3 Park Site Acquisition/Mgmt.
1986	2.5%	2,104,726	2,400,000	
1987	2.2%	1,832,729	2,064,340	

The Resource Indemnity Tax (RIT) Trust provides funds from mineral extraction taxes to be used and expended to improve the environment and rectify damage there-

to. Only net investment earnings may be expended until the fund reaches $100 million. Thereafter, both principal and investment earnings over the $100 million balance may be appropriated. Table 6 shows the growth in the trust fund and interest earnings through fiscal 1985, with projections for the 1987 biennium.

Table 6
Historic and Projected Growth in the Resource Indemnity Trust Fund
Fiscal Years 1974 through 1987

Fiscal Year	Trust Revenue	Year-End Fund Balance	Interest Earnings
1974	$1,141,385	$ 1,141,385	$ 8,483
1975	2,146,071	3,287,456	96,032
1976	2,264,835	5,552,291	283,376
1977	2,679,956	8,232,247	475,082
1978	2,414,604	10,646,851	696,050
1979	1,927,358	12,574,209	908,982
1980	3,630,322	16,204,531	1,175,530
1981	4,960,933	21,165,464	1,637,280
1982	7,163,482	28,328,946	2,294,265
1983	7,852,943	36,181,889	3,789,855
1984	6,804,239	42,986,128	4,255,130
1985	4,410,051	47,396,179	5,526,373
- - - - - - - - - - - - - - - - - - - -	Projected	- - - - - - - - - - - - - - - - - - - -	
1986	5,955,900	53,352,079	5,732,666
1987	4,526,540	57,878,619	6,309,929

Land Grant Trusts

The land grant trusts are administered by the Department of State Lands, which manages the property held in trust. The lands were deeded to the State of Montana by the Federal Government with passage of the Enabling Act by the United States Congress. The Enabling Act provided for Montana's admission to the union and donated public lands to the state. The Act set aside certain public lands for permanent support and maintenance of public schools and for establishment and maintenance of certain institutions and schools of higher education. The permanent income from those lands, including land sales, royalties, and timber sales, were to be placed in

permanent trusts, with investment income from those trusts to be used for support and maintenance of designated schools and institutions. The Act also provides that the lands granted must always be preserved for the purposes for which they were granted.

Bequests

Several individuals and organizations have left property to the state either through estates or by donation, with the stipulation that the bequested funds be placed in a nonexpendable trust and that the investment income on that property be used to support a specified program. Four of these trusts were left for the benefit of state schools and institutions, while five such trusts were left to the Montana Historical Society for specified historical projects.

Miscellaneous

The Burlington Northern-Geraldine Settlement Trust was established in 1984 to hold funds contributed by Burlington Northern in an out-of-court settlement resulting from their abandonment of a railroad branch line to Geraldine, Montana. The funds are set aside for construction of a connection of the branch line to the main line. The construction is the responsibility of Burlington Northern, with work to be completed in 1987, and to be paid using the trust fund principal. Investment income on the funds held in trust are designated for use by the state to rehabilitate the branch line or, if necessary, to pay inflationary costs of construction. The branch line is owned and maintained by the state and leased to a non-profit company.

The Noxious Weed Management Trust, established by the 1985 legislature, imposes a surcharge on the sale of registered herbicides, to be collected by the Department of Agriculture commencing in fiscal 1986. The Department may expend not more than one-half of the annual proceeds of the surcharge, with the remainder to be deposited into the trust fund. The trust fund, including investment income,

may not be expended until the principal reaches $2.5 million except in case of a noxious weed emergency. Once the $2.5 million principal balance is reached, any revenue or interest above that amount must be transferred to a special revenue fund for noxious weed management projects. The Act further states that if the trust is terminated by law, the money in the fund must be distributed to the 56 counties according to specified rules.

The Real Property Trust was established by the legislature. Section 87-1-601, MCA, specifies that moneys received by the Department of Fish, Wildlife and Parks from sales of surplus real property and mineral rights of the department must be deposited in a nonexpendable trust, with investment income to be used only for operation, development, and maintenance of department real property, as appropriated by the legislature.

Retirement Trusts

The retirement trusts were established by statute to provide adequate retirement benefits on a funded basis to the members for which they were established. The major sources of funds are employer and employee contributions. The assets of the retirement trusts may not be used for or diverted to any purposes other than for the exclusive benefits of the members and their beneficiaries.

Restrictions

The nonexpendable trusts discussed herein are restricted to specific uses of trust assets by five general levels of authority: the federal government, the state constitution, legislative statute, donor bequest, and legal contracting documents.

Table 7 lists the restricting authority and the action that would be required to divert trust funds and investment incomes to other purposes.

Table 7
Restrictive Authority for Nonexpendable Trusts

Restricting Authority	Action required to change designated purpose
Federal Government	Amendment of Enabling Act by simple majority vote of U.S. Congress, and amendment of Montana Constitution, requiring two-thirds vote of all legislators and approval of the registered voters of Montana.
Montana Constitution	Amendment to Constitution, requiring two-thirds vote of all legislators and approval by the registered voters of Montana.
Legislative Statute	Simple majority vote to repeal or amend statute, approved by both houses of the legislature and by the Governor (or by override of Governor's veto).
Bequest	Approval of donor(s) if living. In the case of a bequest by will, the original designation is irrevocable.
Legal Contract	Approval of contracting parties

Fund Balance

The composition of the fund balances of the 37 nonexpendable trusts at the end of fiscal 1985 is predominantly investments. Table 8 provides a breakdown of the nonexpendable trust fund balances, taken as a whole.

Table 8
Composition of 37 Nonexpendable Trust Fund Balances - Aggregate
Fiscal 1985

Assets		Liabilities	
Cash and Equivalents	$ 36,025,126	Accounts Payable	$ 5,252,187
Receivables (Net)	21,034,893	Properties Held in Trust	721
Inventory	5,660	Deferred Revenue	87,441
Investments	1,280,153,246		
Fixed Assets	49,753,607	Total Liabilities	5,340,349
Other Assets	178,262,217		
		Fund Balance	$1,559,894,400
Total Assets	$1,565,234,749	Total Liabilities & Fund Balance	$1,565,234,749

RESOURCE INDEMNITY TRUST INTEREST FUNDS

The Resource Indemnity Trust (RIT) was established in 1973 by the 43rd Legislature. The purpose of the trust, as stated in Section 15-38-102, MCA, is:

> . . . to provide security against loss or damage to (the) environment from the extraction of non-renewable natural resources. Recognizing that the total environment consists of our air, water, soil, flora, fauna, and also of those social, economic, and cultural conditions that influence our communities and the lives of our individual citizens, it is necessary that this state be indemnified for the extraction of those resources. Therefore, it is the purpose of this chapter to provide for the creation of a resource indemnity trust in order that the people and resources of Montana may long endure.

To provide a source of revenues for the RIT trust, the legislature established a one-half percent tax on the extraction of oil, gas, coal, and minerals. Historically, nearly two-thirds of the RIT tax has been paid by crude oil producers.

The principal of the trust is nonexpendable and is invested by the Board of Investments. Section 15-38-203, MCA, specifies that expendable funds made available "shall be used and expended to improve the total environment and rectify damage thereto." Expendable funds are limited by Section 15-38-202, MCA, as follows:

> . . . only the net earnings may be appropriated and expended until the fund reaches $100 million. Thereafter, all net earnings and all receipts shall be appropriated by the legislature and expended, provided that the balance in the fund may never be less than $100 million.

Table 1 shows the historical and projected growth of the trust, yearly investment earnings, and interest rate on the RIT from 1982 through 1987.

Table 1
Historic and Projected RIT Trust Fund Growth and Return on Investment
Fiscal Years 1982 through 1987

Fiscal Year	Trust Revenue	Year-End Balance	Interest Earnings	Average Yield
1982	$7,163,482	$28,328,946	$2,294,265	9.46%
1983	7,852,943	36,181,889	3,789,855	11.75%
1984	6,804,239	42,986,128	4,255,130	10.67%
1985	4,410,051	47,396,179	5,526,373	12.51%
1986-Est.	5,955,900	53,352,079	5,732,666	11.73%
1987-Est.	4,526,540	57,878,619	6,309,929	11.58%

Section 15-38-202, MCA, allocates thirty percent of the interest for water development and 6 percent for the Montana Hazardous Waste Act. The balance of funds, 64 percent, plus the fiscal 1985 fund balance was appropriated by the Forty-ninth Legislature in three appropriation bills - HB 500, HB 952, and HB 922. The total estimated RIT interest funds available and their distribution in the 1987 biennium are summarized in table 2.

Table 2
Resource Indemnity Trust (RIT) Interest Earnings/Distribution
1987 Biennium

	Fiscal 1986	Fiscal 1987
Beginning Fund Balance	$2,176,069	$ 616,075
Estimated RIT Interest Earnings*	5,732,666	6,309,929
Total Funds Available	$7,908,735	$6,926,004
Appropriations and Transfers		
Statutory: Hazardous Waste - 6%	$ 343,960	$ 378,596
Water Development - 30%	1,719,800	1,892,978
HB 500: Reclamation, DSL	622,355	-0-
Forestry, DSL	704,555	-0-
Conservation Districts, DNRC	361,184	-0-
Water Resources, DNRC	784,470	-0-
Bureau of Mines and Geology	300,000	-0-
Forestry Experiment Station	552,308	-0-
UM Organized Research	278,728	-0-
Silicosis Benefits, DHES	615,600	580,800
Oil and Gas Regulating, DNRC	10,000	10,000
HB 952: Comprehensive Water Policy Development	188,700	45,000
HB 922: 5% Environmental Contingency Fund	-0-	308,139
Grant Administration - DNRC	8,000	269,000
Grants, Prioritized	803,000	3,395,476
Total Appropriations	$ 7,292,660	$6,879,989
Ending Fund Balance	$ 616,075	$ 46,015

*Based on revised estimates. Interest rate projections on new securities have been revised downward, as have estimates of tax collections due to declining mineral and oil production, resulting in lower investment yields. Post-session estimated interest revenues for the biennium were $13.0 million. The revised biennial estimate is $12.0 million, a difference of $1.0 million.

ISSUE 1: DEFERRAL OF APPROVED LEGACY GRANT PROJECTS

In fiscal 1986, the legislature used $3,603,600 of RIT interest funds (House Bill 500) for programs which are general funded in fiscal 1987. The legislature may wish to consider funding those programs with RIT interest funds rather than general funds again in fiscal 1987. This would require using the funds appropriated in House Bill 922 for the RIT grant in fiscal 1987.

Table 3 shows the prioritized listing of the RIT grant projects approved by the 49th Legislature (House Bill 922) for funding with RIT interest earnings and the estimated amounts expended in fiscal 1986.

Table 3
RIT Grant Projects - 1987 Biennium Appropriations

Project	Grant Amount	Estimated Expenditures Fiscal 1986	Unexpended Balances June 30, 1986
1. Department of Agriculture - Weed Control Trust Fund	$1,000,000	$750,000	$ 250,000
2. MSU, Water Resources Research Center - Stream Restoration on Grasshopper Creek	58,266	-0-	58,266
3. Bureau of Mines and Geology - Groundwater Information Center	75,000	-0-	75,000
4. Anaconda/Deer Lodge County - Anaconda Soil Stabilization and Erosion Control	150,000	25,000	125,000
5. MSU, Water Resources Research Center - Stream Restoration, Confederate Gulch and Deep Creek	134,249	-0-	134,249
6. DHES - Hazardous Waste Management Collection/Transfer Project	800,000	-0-	800,000
7. Butte-Silver Bow - Butte Hill Mining Reclamation	500,000	-0-	500,000
8. Toole County - North Toole County Reclamation Project	298,130	-0-	298,130
9. Governor's Office - Clark Fork River Projects	130,000	18,000	112,000
10. DNRC - Reclamation of Streambanks Damaged by Placer Mining	30,000	-0-	30,000
11. Mile High Conservation District - Reclamation for Heavy Metal Contaminated Agricultural Lands	88,400	-0-	88,400
12. Governor's Office - Cabin Creek Reference to the International Joint Commission	80,000	-0-	80,000
13. MSU, Water Resources Research Center - Cyanides and Heavy Metals from Cyanide Leach Operations, Judith Mtns.	20,000	10,000	10,000
14. DHES - Scobey Air Quality Monitoring	15,000	-0-	15,000
15. Montana State Library - Natural Resources Information System and Natural Heritage Program	225,561	-0-	225,561
16. City of Red Lodge - Coal Miner's Memorial Park - Revegetation and Irrigation Project	100,000	-0-	100,000
17. Triangle Conservation District - Expanded State Salinity	150,000	-0-	150,000
18. Powder River Conservation District - Water Quality Study	80,000	-0-	80,000
19. Glen Lake Irrigation District - Therriault Creek Syphon Construction	32,000	-0-	32,000
20. MSU, 49th Parallel Institute - Montana/Alberta Milk River Joint Impoundment Assessment	70,000	-0-	70,000
21. Montana Bureau of Mines and Geology - Williston Basin Reclamation Project	91,870	-0-	91,870
22. Anaconda/Deer Lodge County - Sewage Facilities	70,000	-0-	70,000
Total Grants Approved	$4,198,476	$803,000	$3,395,476
5% Environmental Contingency Fund (Governor's)	308,139	-0-	308,139
Grant Program Administration (DNRC)	277,000	8,000	269,000
Total RIT Grant Program Approved Expenditures	$4,783,615	$811,000	$3,972,615

The Department of Natural Resources and Conservation, grant administrator, has let or expects to let contracts and interagency agreements for six projects for fiscal 1986, totalling $1,446,210. Total RIT interest fund expenditures or obligations against those contracts at fiscal 1986 year-end are expected to be $803,000. In all cases, the contracts include a contingency clause based on availability of state funding. Table 4 provides the status of actual and anticipated RIT grant activity prior to June 30, 1986.

Table 4
Status of RIT Grant Actual and Projected Obligations
Fiscal 1986

Project Priority Number	Grant Agreement With	Project Title	Agreement Amount	Expenditures/ Obligations	Balance of Agreement
1	Department of Agriculture	Weed Control Management	$1,000,000	$750,000	$250,000
3	Montana Bureau of Mines and Geology	Groundwater Information Center	75,000	-0-	75,000
4	Anaconda - Deer Lodge County	Anaconda Soil Stabilization and Erosion Control	106,210	25,000	81,210
6	Department of Health and Environmental Sciences	Hazardous Waste Management	115,000	-0-	115,000
9	Governor's Office	Clark Fork River Projects	130,000	18,000	112,000
13	Montana Water Resources Research Center	Cyanide Leach, Judith Mountains	$ 20,000	$ 10,000	$ 10,000
			$1,446,210	$803,000	$643,210

The funds expended on weed control projects have been distributed as local weed control grants, while the remaining $250,000 would be for additional grants. The $25,000 provided to Anaconda-Deer Lodge was to plant trees, and that phase is completed. Funds were provided to the Governor's Office and the Water Resources Research Center to continue on-going research.

Table 5 provides an estimate of funds that would be available if the RIT grant program were deferred in fiscal 1987 and the unallocated balance of the RIT interest fund were utilized.

Table 5
Estimated RIT Interest Funds Available - Deferral of RIT Grant Program
Fiscal 1987

RIT grant appropriations not under contract, Fiscal 1987	$3,329,405
Add: Unexpended balance of outstanding grant agreements (All agreements are contingent on availability of funds)	643,210
RIT grant program funds available	$3,972,615
Unallocated RIT interest fiscal 1987 fund balance[1]	46,015
Total funds available	$4,018,630

[1]Estimate of the Office of the Legislative Fiscal Analyst

Option A: Redirect approximately $4.0 million of RIT interest funds from the RIT grant program to replace general fund in programs that improve the state's environment or rectify damage to the environment.

Option B: Take no action.

INDEX

	PAGE
Administration, Department of	A-87
Adjutant General	A-104
Agriculture, Department of	C-60
Arts Council	E-41
Auditor, Legislative	A-4
Auditor, State	A-34
Commerce, Department of	C-69
Commissioner of Political Practices	A-31
Community Colleges	F-17
Consumer Counsel	A-14
Council, Legislative	A-9
Crime Control, Board of	A-63
Deaf and Blind, School for	E-14
Deficit Overview	1
Disaster and Emergency Services	A-104
Environmental Quality Council	A-12
Fire Services Training School	E-5
Fiscal Analyst, Legislative	A-7
Fish, Wildlife and Parks, Department of	C-8
Foundation Program--Public Schools	54
FTE Comparison	51
General Fund Comparison of Revenue Projections	8
General Fund Revenue Projections	12
General Fund Summary	6
Governor, Office of the	A-21
Health and Environmental Sciences, Department of	B-3
Higher Education	F-1
Colleges & Universities	F-60
Agricultural Experiment Station	F-23
Bureau of Mines	F-33
Commissioner of Higher Education	F-5
Community Colleges	F-17
Cooperative Extension Service	F-35
Forest and Conservation Experiment Station	F-59
Regents, Board of	F-4

PAGE

Highways, Department A-119
Highway Traffic Safety A-61
Historical Society E-45
Inflation Factors Used 49
Institutions, Department of. D-1
Boulder River School and Hospital D-46
Center for the Aged D-50
Central Office
Director's Office D-7
Management Services Division D-10
Alcohol and Drug Abuse Division D-14
Mental Health Division D-26
Corrections Division D-18
Eastmont Training Center D-52
Montana Development Center D-46
Montana State Hospital D-57
Montana Youth Treatment Center D-62
Mountain View School D-33
Pardons, Board of D-65
Pine Hills School D-35
Prison, Montana State D-40
Swan River Youth Forest Camp D-44
Veterans' Home D-54
Judiciary A-16
Justice, Department of A-43
Labor and Industry, Department of B-22
Lands, Department of State C-24
Legislative Auditor A-4
Legislative Council A-9
Legislative Fiscal Analyst A-7
Library, Montana State E-56
Livestock, Department of C-39
Long-Range Building G-1
Military Affairs, Department of A-104
Natural Resources and Conservation, Department of C-45
Non-Expendable Trusts G-10

PAGE

Other Education E-1
Advisory Council for Vocational Education E-40
Distribution to Public Schools E-29
Fire Services Training School E-5
Historical Society E-45
Montana Arts Council E-41
Office of Public Instruction E-22
Public Education, Board of E-2
School for the Deaf and Blind E-14
Vocational Technical Centers E-34
Pay Plan 52
Political Practices, Commissioner of A-31
Public Education, Board of E-2
Public Employees Retirement Division A-99
Public Service Regulation C-4
Resource Indemnity Trust G-22
Revenue, Department of A-73
Revenue Projection, General Fund 12
Revenue Estimates, General Fund Comparison of 8
Secretary of State A-27
Social and Rehabilitation Services, Department of B-38
State Auditor A-34
State Lands, Department of C-24
State Library E-56
Summary, General Fund 6
Superintendent of Public Instruction E-22
Supplementals 46
Supreme Court A-16
Teachers Retirement A-103
University System (see Higher Education) F-60
Vocational Education, Advisory Council for E-40
Vocational-Technical Centers E-34
Workers' Compensation B-34

275 copies of this public document were published at an estimated cost of $19.27 per copy, for a total cost of $5,300.00, which includes $5,300.00 for printing and $.00 for distribution.